

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**.

The Office of Ratepayer Advocates (ORA) is the independent consumer advocate within the California Public Utilities Commission (CPUC). ORA's statutory mandate is to obtain the lowest possible rates for utility services consistent with reliable and safe service levels. ORA also advocates for customer and environmental protections in connection with utility service. Below are ORA's comments on the California Independent System Operator Corporation's (CAISO's) February 10, 2016 Straw Proposal and the March 9, 2016 stakeholder working group meeting on benefits assessment methodology.

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.

The CAISO Straw Proposal contemplates that each new participating transmission owner (PTO) would be considered a new sub-region, without regard to size or geographic location. ORA seeks further explanation of why the expansion of the Regional ISO BAA boundary is the only metric that CAISO is proposing to determine what constitutes a new sub-region. Under this approach, small PTOs that join the expanded ISO would be considered their own separate sub-regions. Assume that a new, small PTO has a small number of high-voltage (HV) transmission facilities: Under the CAISO’s Straw Proposal, would the new PTO’s Load Serving Entity (LSE) be allowed to utilize the rest of the Regional ISO’s HV system at no charge? Would the answer change if the new PTO had no HV facilities?

As other stakeholders have mentioned, a question remains regarding how new PTOs within either the current CAISO BAA or that of PacifiCorp (PAC) would be treated. On page 5 of the Straw Proposal, the term PTO is modified to be a transmission owner outside of the current BAA boundaries. This is also suggested by the definition of “Expanded ISO” on page 12. Is this meant to limit this proposed treatment to only PTOs outside of the current CAISO BAA? If so, in what ways would new PTOs within the current CAISO BAA be treated differently? For example, consider the potential integration of the Turlock Irrigation District, Imperial Irrigation District, or the Balancing Area of Northern California (BANC). Would these entities be exempt from paying the HV transmission access charge (TAC) towards the CAISO’s existing transmission if they joined the CAISO under the terms of the Straw Proposal?

Given that the Straw Proposal seeks to revise the existing TAC structure to accommodate any new PTO in the western interconnection joining the CAISO BAA, a one-size fits all definition of a sub-region may not be appropriate. A more holistic methodology for determining the footprint of a sub-region could give the new regional ISO necessary flexibility. Potential criteria for determining the impact of the addition of a new PTO on a given sub-region should include size, geography and prior operating relationships, and the new PTO’s plans to develop transmission infrastructure and seek cost recovery.

CAISO stated in the March 1st TAC Options stakeholder meeting that in order to deal with the above-mentioned scenarios it would likely seek to address exceptions through a transition agreement filed with the Federal Energy Regulatory Commission (FERC) so as to not create tiny sub-regions for a small number of facilities. The use of a transition agreement to manage exceptions is not sufficiently transparent, as stakeholders’ first

opportunity to comment on the transition agreement would be when the agreement is filed at the FERC. Moreover, the TAC Options initiative is aimed at proposing revisions to the existing TAC structure in order to accommodate any new PTO joining the CAISO BAA. Thus, rules and procedures for reasonably foreseeable scenarios, such as this one, should be developed in this initiative.

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.

ORA agrees with Pacific Gas and Electric Company’s (PG&E) suggestion (made during the March 1st stakeholder meeting) that the CAISO consider a process to determine if regional benefit and cost allocation is justified for facilities that have been approved by the CAISO’s existing Transmission Planning Process (TPP), but which are currently still under development at the time of the new, regional integrated transmission planning process for the expanded BAA. This analysis will enable the determination of whether a new PTO benefits or will benefit from the approved, but yet to be developed transmission infrastructure, and therefore assigned a commensurate share of the cost.

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.

While the rationale that each sub-region has made decisions to build its existing systems without anticipation of other parties paying part of the costs is correct, allocating the TRR of each sub-region’s existing facilities entirely to that sub-region fails to acknowledge the potential benefits that a sub-region may provide to another sub-region. This approach has the potential to provide benefits to customers of the first new PTO to join an expanded ISO at no cost and would be inconsistent with the FERC Order 1000 benefits and costs allocation rules.

CAISO states that the benefits accrued by a new sub-region from CAISO’s existing facilities would be balanced by the benefits accrued from CAISO from the new sub-region’s existing facilities. This might be true, but additional analysis is needed before reaching the conclusion that each new entity provides equal benefits.

Furthermore, the TAC Options initiative is aimed at proposing revisions to the existing TAC structure so as to accommodate any new PTO joining the CAISO BAA. Even if analysis revealed that the benefits accrued from existing facilities between CAISO and PacifiCorp each provide proportional benefits, it is not necessarily true of other new PTOs. Therefore, a methodology for evaluating the benefits and costs from existing facilities is necessary.

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.

The CAISO states that it would be a tremendous undertaking to examine the costs and benefits of existing facilities. Yet the question of whether sub-regions would benefit from existing facilities in other regions deserves study to determine whether quantification of costs and benefits is possible. The Straw Proposal recommends adopting a license plate approach for the cost allocation of existing facilities, noting at page 14, "it would be difficult to show that a facility in the San Diego area provides load ratio share benefits to customers in Utah based solely on its voltage level, even if the facility is rated at 500 kV, without further demonstration of benefits." This raises the following questions. How is this example different from what is done today in the current CAISO footprint? How are ratepayers in northern California benefitting from that same San Diego upgrade any more than the Utah customers cited in the example?

Further, the current proposal states that benefits for regional upgrades will be revisited annually, so eventually regional upgrades could include a large group of facilities. If it is feasible to analyze benefits of a large group of regional upgrades, it is unclear why benefits of existing facilities cannot be similarly analyzed.

ORA recommends that the costs of existing transmission should be allocated to all the sub-regions, namely in this case the CAISO and PacifiCorp, based upon the benefits accrued from existing facilities. This analysis should be repeated or updated anytime a new PTO with a substantial footprint joins the regional ISO. If it is determined that such a benefits assessment methodology is not feasible, the costs of the existing transmission should be allocated to all sub-regions on a postage-stamp basis for all facilities above a voltage threshold. While the Straw Proposal threshold for new regional facilities has a threshold of 300 kV, this threshold amount appears to be driven by the specific case of PacifiCorp and not the more general case of a regional ISO. Based upon the existing allocation of costs in the current CAISO footprint and the previously noted similarities within California to the PacifiCorp benefits from distant transmission upgrades, ORA supports a threshold of 200kV as a consistent and fair treatment with respect to current participants in the CAISO. In the spirit of brainstorming as solicited by CAISO, ORA is open to considering a phase-in transition period of about 5 to 10 years into a postage-stamp rate for the expanded BAA, consistent with the transition period that was established at the time of the CAISO's formation.

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.

As noted above, absent further technical justification, ORA submits that the criterion (a) rating > 300 kV is not appropriate and should be replaced with > 200 kV. A 200kV transmission facility may potentially have wide area benefits. A threshold amount of > 200kV is consistent with and supported by the current cost allocation within California. Moreover, under the CAISO proposal, eligibility for allocation for new regional facilities is just the first step and will be followed by a benefits test. Therefore, there is no need to exclude 200 kV facilities under the initial screen. If such facilities are not beneficial to other sub-regions, that will be determined as an outcome of the benefits test. ORA also notes that the other two criteria (b & c) allow for any transmission facility without any regard for a voltage threshold level.

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.

The proposal to allocate costs of new facilities eligible for regional cost allocation, "to align with each sub-region's relative benefits," would meet FERC Order 1000's requirement that costs must be allocated "roughly commensurate" with benefits, but it is premature to adopt that requirement without considering other alternatives. For example, allocating benefits based on a load ratio share (postage stamp rate) would meet FERC's requirement and be easier to implement, since it would avoid potential disagreements about how to value benefits. Before selecting the cost allocation method for new facilities, ORA recommends that the CAISO present more details about its proposed framework for evaluating and valuing benefits, in comparison to a simpler load ratio share approach.

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.

This provision to allocate costs of new regional facilities (previously approved in the integrated TPP process) to new PTOs appears fair if the analysis shows that the new PTO would benefit from the regional facilities. However, the provision highlights a shortcoming in the Straw Proposal: there is currently no similar analysis for allocation of costs of existing or approved facilities prior to the formation of a Regional ISO. Empirical analysis can determine whether or not a new PTO benefits from existing facilities. While it may not be feasible to conduct this benefit analysis at a granular level that quantifies the accrued benefits in exacting detail, broad principles, such as evaluating load ratio

share, should be considered as potential ways to evaluate the benefits of existing facilities for new PTOs. This type of analysis would meet FERC Order 1000's requirement that costs must be allocated "roughly commensurate" with benefits.

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.

The annual recalculation of sub-regional benefit shares would be consistent with FERC Order 1000's requirement that costs must be allocated "roughly commensurate" with benefits. The expanded ISO tariff should ensure that the annual recalculation of sub-regional benefit shares is calculated in alignment with the Transmission Planning Process and that rate increases are capped for the existing expanded BAA customers in order to prevent rate shock.

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).

The CAISO should consider extension of the schedule of activities to allow adequate time for stakeholder review and input of just and reasonable TAC structures under an expanded ISO footprint.

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.

ORA is open to retaining the flexibility of applying different benefits assessment methods for the three main categories of transmission projects.

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.

The Straw Proposal's use of 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 load-ratio share basis as some of the other ISOs do, appears to be reasonable. However, as indicated in ORA's response to Q.6, ORA is seeking more details in order to continue to develop its own proposed framework for evaluating and valuing benefits, in comparison to a load ratio share approach.

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.

It is not clear that measuring power flows accurately reflects the accrued benefits. The PJM-based DFAX method assumes that power flow equates to reliability benefit, which may be true only under certain limited conditions. In PJM, where the neighboring systems are more integrated, with dozens of tie-points between any two neighboring systems, DFAX-like analysis is a better fit. However, for a sparse network in the Western Interconnection, the DFAX method may not be a worthwhile tool for determining benefit shares. Additionally, the DFAX methodology is difficult for stakeholders to replicate and therefore its use may result in less transparency.

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.

ORA supports the use of an economic production cost approach such as the key element of TEAM for determining benefit shares associated with an economic transmission project. The CAISO's TEAM approach, while assessing the benefit of a candidate transmission facility, in addition to production cost benefits, calculates multiple additional benefits including transmission losses, capacity, etc. It seems inappropriate to use such additional benefits beyond those identified in the production cost analysis to determine the benefits associated with economic transmission. The benefit shares should be determined solely based on the production cost benefits. If the CAISO chooses to apply the TEAM methodology in its entirety, the capacity benefits methodology and calculations should be updated through a transparent and comprehensive stakeholder process.

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.

As explained in ORA response to Q. 13, it appears inappropriate to use such additional benefits beyond those identified in the production cost analysis to determine the benefits associated with economic transmission.

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.

ORA agrees that 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 could overlook benefits that accrue to areas other than the state whose policy required the project. On the other hand, a benefits assessment would show whether other states, even if they don't have the same policies, benefit from the transmission facilities.

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.

Although the TEAM approach could be used in assessing the benefits of reliability and economic projects, ORA does not consider it to be an appropriate method for determining the benefits of a policy-driven transmission project. The need for a policy-driven project may be driven by commitments to resources made by entities whose loads might be electrically remote from the transmission project itself, and the policy-driven project is not necessarily meant to meet reliability or economic goals and may have a much narrower set of beneficiaries. An approach like TEAM, that is best suited to assessing benefits of economic projects and certain elements of reliability projects, would not be a good fit to allocate benefits associated with a policy-driven project to the entities that are actually benefiting from it. That is, the particular LSEs using the transmission needed to access particular resources needed to meet their contribution to their particular state's policy goals should bear the cost associated with such facilities. As explained in ORA's response to Q. 17, the BAMx-proposed methodology corrects this failing of the TEAM approach.

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.

ORA recommends further analysis of the BAMx proposal for cost allocation for public policy projects, because the proposal focuses on ensuring that those entities that are benefiting from resources using transmission pay an appropriate share of the costs. ORA recommends that this proposal should be given further consideration.

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

ORA has no further comments at this time.