Transmission Access Charge Options for Integrating New Participating Transmission Owners

Revised Straw Proposal

May 20, 2016

Market & Infrastructure Policy

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1. Executive Summary

In 2015 the ISO began considering how it would need to modify its tariff to integrate additional transmission-owning utilities with load-service territories into an expanded balancing authority area ("BAA"). The rationale for starting this effort was based on the operational and market efficiencies of larger BAAs that have been demonstrated in the eastern United States, plus the environmental and cost benefits of using geographic resource and load-shape diversity in the west to integrate renewable generation.

At the same time, PacifiCorp, the first BAA to join the new energy imbalance market ("EIM") operated by the ISO, expressed interest in joining the ISO as a full participant. PacifiCorp began its own assessment of the costs and benefits of becoming a full participating transmission owner ("PTO") and began working closely with the ISO to develop the details of the integration process.

A central policy element of expanding the ISO is the question of how to allocate the costs of owning, maintaining and operating the transmission assets[1] that would comprise the expanded ISO's controlled grid. This element is referred to as the Transmission Access Charge ("TAC"), which is the mechanism currently used by the ISO to recover these costs. To address this policy element the ISO opened a stakeholder initiative with the release of its October 23, 2015 issue paper, to consider whether the ISO's existing TAC design would be suitable for a significantly expanded BAA, and if not, how to revise it to better align cost allocation with the benefits that different sub-regions of the expanded ISO would receive from the transmission facilities placed under ISO operational control. The ISO issued a TAC straw proposal on March 1, 2016 and subsequently conducted public meetings and received written comments on the proposal.[2]

The present revised straw proposal modifies the March 1 straw proposal based on comments received from stakeholders and further consideration by the ISO of the pros and cons of the various provisions of the straw proposal.[3] As a revised straw proposal it reflects the ISO's best

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1 These costs are referred to as "transmission revenue requirements" or "TRR." The amount of money a participating transmission owner (PTO) can recover as its TRR must be approved by the Federal Energy Regulatory Commission (FERC).

2 The ISO's web page for the TAC Options initiative contains the October 23, 2015 issue paper that opened the initiative, the March 1, 2016 straw proposal, and all written comments submitted by stakeholders and presentations the ISO used in public stakeholder meetings on this initiative. See: http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionAccessChargeOptions.aspx

3 For brevity this paper omits most of the background discussion and comparison of other ISOs/RTOs, which was provided in prior ISO papers on this initiative. Readers of this paper should refer to the October 23, 2015 issue paper and March 1, 2016 straw proposal for these additional details.

thinking to date on the various TAC design elements and issues, but is not intended to be the final word. Section 2 below provides the proposed schedule of further activities the ISO has planned for working with stakeholders to arrive at the final proposal ISO management will present to its Board of Governors at the end of August for approval.

The major provisions of the revised straw proposal are summarized as follows. Additional details are provided in section 3.

1. ”Existing” facilities are defined here to mean transmission facilities that are in service or have been approved in separate planning processes and are under development at the time a new PTO joins the ISO, i.e., facilities that were not planned and approved under an integrated planning process for the expanded ISO BAA that would commence once the first new PTO is integrated into the BAA. The costs of existing facilities will be recovered on a sub-regional basis, where the current ISO BAA is considered one sub-region and the new PTO is another. This means that both sub-regions would continue to pay the same costs for existing facilities under an expanded ISO BAA that they would have paid if they remained separate.
2. ”New regional facilities” are defined here to mean facilities that are planned and approved under an integrated transmission planning process that would be established for planning transmission for the entire expanded ISO BAA, and that meet certain criteria specified in this proposal. The costs of new regional facilities would be allocated to multiple sub-regions of the expanded ISO in accordance with the decisions of a new body of state regulators to be formed as part of a new ISO regional governance structure in conjunction with the integration of the new PTO. Reliability-driven projects that are approved solely to meet an identified reliability need within a sub-region would be the exception to this approach; their costs would be allocated entirely to the sub-region whose reliability need was the driver of the project.
3. Transmission upgrades approved for region-wide cost allocation, or whose costs would be recovered from multiple PTO service territories within a sub-region, will be subject to competitive solicitation to determine the entity that will build and own the facility. This is consistent with FERC Order 1000 and the ISO’s current provisions regarding competitive solicitation.

2. Initiative Schedule

Date	Activity
May 20, 2016	Post revised straw proposal
June 1, 2016	Stakeholder meeting in Portland, Oregon
June 10, 2016	Submit written comments on revised straw proposal
June 28, 2016	Post draft final proposal
Date TBD	Stakeholder meeting in Folsom
Date TBD	Submit written comments on draft final proposal
August 30 & September 1, 2016	Board of Governors meeting

3. Revised Straw Proposal

This section provides the details of the ISO's revised straw proposal.

Key terms and concepts

a) "CAISO" as used here refers to the existing ISO balancing authority area (BAA), including the ISO Controlled Grid and member PTOs as they are today, prior to integrating a new PTO with a load service territory.

b) "Expanded ISO" refers to the expanded BAA after a new PTO with a load service territory integrates with the CAISO.

c) "PTO#1" refers to the first new PTO with a load service territory to join the CAISO to form the expanded ISO.

d) "Existing facilities" means an entity's transmission assets that are either in service at the time of joining the ISO or have been approved in the entity's separate planning process and have scheduled in-service dates. More specifically, for a facility to be categorized "existing" the entity charged with building the facility must have either begun construction on the facility, in accordance with the IRS definition that is used to determine the eligibility of a renewable generation project for investment tax credits,[4] or have committed funding to the project as evidenced by publicly disclosed corporate financial documents or an affidavit of the appropriate corporate executive.

e) "New facilities" means transmission elements that are planned and approved via an integrated TPP for the expanded ISO BAA. This category could include a project that was

[4] The US Internal Revenue Service issued a notice on May 5, 2016 to clarify the meaning of "begun construction" for purposes of determining eligibility by renewable energy projects for investment tax credits. The guidance provides two alternative methods for satisfying the beginning of construction requirement: (i) by beginning "physical work of a significant nature" or (ii) by satisfying a safe harbor based on the amount paid or incurred with respect to a project. For additional details see the original IRS notice: https://www.irs.gov/pub/irs-drop/n-16-31.pdf

being considered as an "inter-regional" project prior to the new PTO joining the ISO, and that is subsequently adopted and approved via the expanded TPP, provided that project does not meet the criteria for the "existing" category.

f) Currently the CAISO is considered a "region" in the terminology of FERC Order 1000. Once PTO#1 joins, the expanded ISO BAA will become the new "region" for Order 1000 purposes. After that the current CAISO system would be considered a "sub-region," as would PTO#1 and each subsequent new PTO with a load service territory that joins, unless the new PTO is embedded within or electrically integrated with an existing sub-region. In the latter case the new PTO would have a one-time choice prior to the integration date to either become part of the sub-region with which it's integrated or become a new sub-region. This provision responds to several stakeholder comments to the effect that not every new PTO should be its own sub-region if it is already embedded within or substantially integrated with an existing sub-region. Allowing such a PTO a one-time choice would enable that entity to consider the TAC implications of either decision, so that cost allocation impacts could be less of a barrier to joining the expanded BAA.

g) This proposal applies only to high-voltage (>200 kV) transmission facilities. We assume that TRR for low voltage (<200 kV) facilities that become part of the expanded ISO controlled grid will be recovered on a PTO-specific basis, comparable to "local" facilities in the terminology of Order 1000 and the CAISO TAC structure today.[5]

h) This proposal assumes that TAC will continue to be charged on a per-MWh basis to load and exports. It does not consider whether anyone other than load or exports should pay the TAC, nor does it consider alternative billing determinants such as peak-demand based charges.

Revised straw proposal – existing facilities

1. TRR associated with existing facilities will be recovered on a sub-regional basis, where the CAISO is one sub-region and PTO#1 is the other sub-region. This is referred to as the "license plate" approach, though in this proposal the "license plates" would be sub-region specific; not PTO-territory specific in the event that a sub-region is comprised of multiple PTOs.

   Some stakeholders advocated blending costs of some existing facilities for cost recovery on a region-wide basis. The ISO considered alternative ways to carve out a subset of existing facilities for this purpose and ultimately concluded that the complexities and risks of such an approach would be counterproductive. First, in approving license plate rates for existing facilities in the context of other ISOs/RTOs, FERC has accepted the argument that the individual PTO areas had made decisions to build their existing systems for the benefit of their existing ratepayers without any anticipation of some other parties paying part of those costs. By coming together into a larger BAA all PTO areas benefit, while keeping the

[5] In some instances a lower voltage facility placed under ISO operational control may qualify for regional cost allocation; see the definition of "new regional facilities" below.

existing facility costs separate means that no area experiences a positive or negative impact that would occur if some costs of existing transmission were merged and reallocated.

An important feature of this approach is that all sub-regions have equal access to the benefits of the expanded ISO transmission system and BAA, and continue to pay the same TRR costs for existing facilities that they otherwise would have paid. FERC has agreed that this approach meets their standards for aligning costs and benefits.[6]

Moreover, retaining the straw proposal approach here preserves the clear principle that any facilities eligible for region-wide cost allocation would have to be planned and approved under an integrated planning process that includes all member PTOs and their stakeholders. In particular, this approach mitigates the risk of incentivizing a potential new PTO to develop costly new high-voltage transmission for its area with the expectation that some of its costs can be transferred to other members of the expanded ISO upon its joining. With an approach that blends some costs of existing facilities the ISO would also have to impose a rule that mitigates this incentive in a manner that would be transparently applicable to any subsequent new PTO.

2. The existing facilities at the time PTO#1 joins the expanded ISO will be referred to as "Legacy Facilities" for purposes of integrating subsequent new PTOs (explained in the next step).
3. When PTO#2 joins the expanded ISO and creates a new sub-region, the TRR for PTO#2's existing facilities will be recovered from the PTO#2 sub-region, and PTO#2 will have no cost responsibility for the Legacy Facilities. This is comparable to the treatment of the CAISO and PTO#1 existing facilities when the larger ISO BAA is first formed. PTO#2's existing facilities then become part of the Legacy Facilities for purposes of integrating PTO#3. Similarly, each subsequent new qualified PTO for which a new sub-region is created for TRR allocation purposes will be responsible for the costs of its own existing facilities at the time it joins, and will not be responsible for the costs of the Legacy Facilities.

   Alternatively, if a new PTO joins and becomes part of an existing sub-region, that PTO's costs for existing facilities above 200 kV will be combined with the corresponding costs of the sub-region it joins for recovery through the common sub-regional license plate rate.

Revised straw proposal – new facilities

4. A "new" facility – i.e., a facility planned and approved through the integrated ISO TPP for the expanded BAA – will be considered for regional cost allocation if it is either a policy-driven or economic upgrade and at least one of the following criteria: (a) is rated > 200 kV,[7] or (b)

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6 Refer to the ISO's October 23, 2015 issue paper and March 1, 2016 straw proposal for information on specific FERC and court decisions on this topic.

7 The straw proposal had a threshold of 300 kV for criterion (a); this proposal lowers the threshold to 200 kV in response to stakeholder comments. It is important to keep in mind that the lower threshold does not automatically lead to region-wide cost allocation, it only makes the facility eligible to be considered for region-wide cost allocation.

interconnects two or more sub-regions or upgrades an existing interconnection, regardless of voltage level, or (c) creates a new or upgrades an existing intertie with a BAA adjacent to the expanded ISO BAA, regardless of voltage level.

5. Costs of reliability-driven upgrades that are approved solely to meet an identified reliability need within a sub-region will be allocated entirely to the sub-region in which the reliability need was identified.[8] The prior straw proposal would allocate reliability project costs based on a benefits assessment using the PJM DFAX method. Many stakeholders objected to the use of DFAX for this purpose, and although FERC has recently upheld PJM's use of DFAX, the ISO is now proposing this simpler approach for reliability projects.
6. A new economic or policy-driven facility that meets at least one of criteria (a)-(b)-(c) of point 4 above will be referred to as a "new regional facility." Costs of new facilities on the expanded ISO controlled grid that do not meet any of these criteria will be recovered entirely from the sub-region in which they are connected.
7. New regional facilities that are eligible for regional cost allocation will be open for competitive solicitation under this proposal.
8. 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 to be formed as part of a new ISO regional governance structure in conjunction with the integration of the new PTO into the expanded BAA.[9]
9. The ISO continues to support the need to recalculate sub-regional cost/benefit shares of new regional facilities periodically to adjust for impacts of any changes to the network. This is important because patterns of flow can change when there are changes to grid topology or the supply fleet, in which case the distribution of benefits for the facility in question could change as well. In response to stakeholder comments on this point, the ISO would propose to perform the recalculation only when a new PTO joins and creates a new sub-region, or at least once every five years. However, questions of whether to do this at all, and if so how and how often, should be aligned with the approach to cost allocation developed by the new body of state regulators mentioned above.
10. The ISO continues to support the view that PTO#2 and subsequent PTOs joining the expanded BAA should be allocated cost shares for new regional facilities even if those new facilities were approved prior to PTO#2 or the subsequent PTO joining. This would essentially mean that all new regional facilities approved under the expanded ISO TPP from the time the expanded TPP begins with the joining of PTO#1 will potentially become the cost responsibility of all members, regardless of when they join. As with the previous point,

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[8] An economic or policy-driven transmission project that also has reliability benefits to a sub-region or that offsets an otherwise needed reliability project would be treated as an economic or policy-driven project per point 8 in this section.

[9] The ISO notes that FERC Order 1000 requires the ISO to have back-stop provisions for approving and allocating the costs of economic and policy-driven transmission projects. The ISO will address such provisions later in this initiative.

however, any application of this principle would need to be aligned with the cost allocation decisions of the new body of state regulators.

The main justification for this approach is that if PTO#2 or a subsequent new PTO could avoid costs for projects approved through the expanded ISO TPP, it would be PTO#2's best strategy to stay out of the expanded ISO until after significant projects were approved, and then join after such approval. In this way PTO#2 could avoid paying a fair share for projects from which it actually receives significant benefits.

Revised straw proposal – additional provisions

11. Single region-wide charge for exports. The straw proposal did not address the rate to be charged to exports from the expanded BAA, known as the "wheeling access charge" or "WAC." The ISO proposes to create a single WAC rate for all exports on any-high voltage transmission facilities (i.e., > 200 kV) connecting the expanded BAA with an adjacent BAA. The single WAC rate would be a load-weighted average of all the sub-regional TAC rates plus any region-wide postage stamp TAC rate if such a rate is created to recover costs of particular new regional facilities. This is consistent with the practices of other multi-state ISOs and RTOs.