Six Cities' Comments

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. 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:

As discussed below and in previous comments submitted in this initiative, the Six Cities oppose the CAISO's proposal to eliminate the TAC structure and replace it with TAC subregions that are assessed license plate TAC rates. This approach will result in a misalignment of the costs and benefits of an integrated transmission system by allowing certain parties to use the transmission network without paying a share of its full cost. It is also likely to encourage potential Participating Transmission Owners with significant transmission buildout objectives to join the CAISO, in the hopes of obtaining approval and regional cost allocation for potential projects (or a share of such projects), while deterring other potential Participating Transmission Owners ("TO"s) from joining until after significant major projects by predecessor Participating TOs are approved.

The Six Cities reiterate their support for retention of the existing TAC methodology, with (if necessary) a reasonable phase in period, not to exceed ten years.

As the Six Cities also previously commented, retaining the existing methodology would avoid the need to develop cost allocation methodologies that are specific to the characteristics and benefits of different projects. While the Six Cities appreciate that the CAISO has, in the Draft Regional Framework, adopted an allocation methodology that would allocate the costs of certain policy projects to the load associated with state and local regulatory authorities whose policies resulted in the need for the project, the Six Cities also observe that the CAISO's descriptions of different project scenarios and corresponding allocations are convoluted, unclear, and require significant clarification. Some of CAISO's proposed allocation approaches for these scenarios appear to conflict, and the Six Cities believe that the CAISO should endeavor to be more comprehensive and complete in its descriptions of possible project permutations in any final work product that results from this stakeholder initiative. These concerns are more fully described below in response to Questions 11 through 15 and 21.

The Six Cities also urge the CAISO to provide further clarification and an opportunity for additional stakeholder comment before this "Draft Regional Framework Proposal" reaches the Draft Final Proposal stage.

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."

   The Six Cities have repeatedly outlined their objections to the CAISO's proposal, including the elements associated with the creation of new subregions and revised cost allocations whereby the costs of existing facilities are allocated subregionally and the costs of new facilities are allocated according to project characteristics.

   In particular, please see the Six Cities' October 28, 2016 comments on the Second Revised Straw Proposal in response to questions 3 and 5.

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."

Please see the Six Cities comments above and in response to question 4 of the Six Cities' comments on the Second Revised Straw Proposal.

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.

   Subject to their general objections to the Draft Regional Framework, the Six Cities do not oppose this feature of the proposal if the CAISO proceeds with the Draft Regional Framework.

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.

   Please see the Six Cities comments above and in response to question 5 of the Six Cities' comments on the Second Revised Straw 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.

   Please see the Six Cities' response to question 6 in their comments on the Second Revised Straw Proposal.

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.

   The CAISO's assumption that the current structure of the TPP will not change has not been evaluated in a stakeholder process. Does the CAISO intend to consider changes to the TPP in connection with regionalization, as the CAISO has previously stated? If so, when will that stakeholder process occur?

   Additionally, it is not clear what the CAISO means by "current three phase structure" as used in this question. In general, the Six Cities do not have a position regarding the TPP being divided into three phases or the various activities that occur in each phase, although they have not specifically considered whether there may be advantages or disadvantages to modifying the existing structure to accommodate a regional ISO and what such modifications would be.

The Six Cities do have concerns with at least one element of the existing TPP, which is the cost-to-benefit ratio for economic projects. The ratio should be increased so that the benefits of a potential project must exceed its costs by a factor of 1.25 in order for the project to be approved. Please refer to the Six Cities' comments on the Second Revised Straw Proposal in response to question 9.

The Six Cities also urge the CAISO to consider at what stage of the TPP it will provide information about proposed cost allocations for projects and how detailed that information will be. The Six Cities request that the CAISO provide an example of the information the CAISO will provide during the TPP to enable stakeholders to determine the applicable cost allocation for a project, including what loads will be assessed the costs of multi-region policy projects.

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.

   With respect to reliability projects, please refer to the Six Cities' comments on the Second Revised Straw Proposal in response to question 7.

   Subject to their general objections to the CAISO's proposal, with respect to policy-driven projects, the Six Cities support expansion of the concept that the CAISO has adopted for reliability projects that either are built in a subregion other than the one where the policy driver originated or meet the policy needs of multiple subregions. Specifically, the costs of policy projects should be recovered from the customers that engage in procurement activities from resources that will utilize the transmission project(s) or whose state/local regulatory authorities authorized such procurement.

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.

   Please refer to the Six Cities' comments on the Second Revised Straw Proposal in response to question 9.

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.

Please see the Six Cities' comments on the Second Revised Straw Proposal in response to question 10.

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.

    Subject to their general objections to the CAISO's proposal, the Six Cities prefer the "driver first" allocation for this project category. Please see the Six Cities' comments on the Second Revised Straw Proposal in response to question 10.

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.

    Subject to their general objections to the CAISO's proposal, the Six Cities support allocating the costs of policy-driven projects (or portions of projects) that are built in a different sub-region to the loads associated with state or local regulatory authorities driving the policy need for the project. However, this feature should be expanded to projects (or portions of projects) that are built in the same subregion in response to policy mandates driven by state or local regulatory authorities in the subregion where the project is built.

    Second, what information would a local regulatory authority need to provide the CAISO (and at what stage of the TPP) in order to ensure the correct cost allocation could be implemented? Additionally, how would the CAISO resolve disputes regarding the relevant cost allocation, should any arise?

    Finally, the CAISO stated during the December 13, 2016 stakeholder meeting that it had not considered the cost allocation for unused transmission capacity for multi-region projects. The Six Cities had assumed, perhaps inaccurately, that the CAISO proposed to allocate the cost of multi-subregion projects in proportion to the loads whose state/local regulatory authorities contributed to the policy need for the project, and that there would be no residual. If this assumption is not correct, the Six Cities recommend that the

CAISO clarify the proposal. Failure to address this issue could result in undue cost exposure for the loads to which the transmission project costs are to be allocated.

12. <u>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.</u>

    This appears to be the same scenario as first described above in question 11. Please see the comments provided in response to question 11.

13. <u>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.</u>

    This appears to be the same scenario as is described below in response to question 15. The Six Cities believe that the details of this allocation scenario (and, indeed, each of the scenarios described herein) would benefit from further explanation and at least one example demonstrating the type of situation the CAISO is attempting to address. With respect to projects built to achieve state compliance with federal policy mandates, would the cost allocations be directly to loads within the state and not at the sub-regional level? What information would states provide to the CAISO in order to document whether or not their policies contributed to the need for a policy project in another region? Would local regulatory authorities for specific loads have the opportunity to demonstrate a lack of need to use the transmission project?

14. <u>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.</u>

    This question asks about policy driven projects "built in one sub-region to meet the policy mandates of another sub-region." Questions 12, 13, and 15 suggest that the costs of such projects will be allocated to load associated with a state or local regulatory authority driving the need for the project. This question states that the costs of such projects will be allocated according to economic benefits. It is not clear what the CAISO is proposing, and this is one specific area where the additional clarity is needed. Why wouldn't the full cost of the project be allocated to load associated with state or local regulatory authority policies driving the need for the project? The Six Cities have identified similar inconsistencies at pages 7 and 16-17 of the Draft Regional Framework.

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.

    The Six Cities support an expansion of the proposal to allocate the costs of policy-driven projects to loads associated with state and local regulatory authorities that caused or contributed to the need for the project.

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.

    Please see the Six Cities' comments on the Second Revised Straw Proposal in response to question 13.

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.

    Please see the Six Cities' comments on the Second Revised Straw Proposal in response to question 16.

    Additionally, the Six Cities request that the CAISO confirm whether Participating Transmission Owners will continue to credit such revenues against their Transmission Revenue Requirements ("TRRs") via the Transmission Revenue Balancing Account ("TRBA").

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.

    Please see the Six Cities' comments on the Second Revised Straw Proposal in response to question 15. As discussed there, the Six Cities support setting the EAC at the highest sub-regional TAC rate.

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.

    Please see the Six Cities' comments on the Second Revised Straw Proposal in response to question 17.

    Additionally, the Six Cities request that the CAISO confirm whether such revenues are to be credited against Participating TOs' TRRs via the TRBA.

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.

    Subject to their general objections to the CAISO's proposal and their continued support for setting the EAC based on the highest sub-regional TAC rate, the Six Cities do not oppose this aspect of the CAISO's proposal.

21. Please provide any additional comments on topics that were not covered in the questions above.

    The CAISO's proposed cost allocation scenarios as described in the Draft Regional Framework are confusing and unclear and should be further refined so that the various scenarios and cost allocation approaches are readily understandable. For example, items d. and e. on page 7 of the Draft Regional Framework appear, in certain respects, to describe different cost allocations for the same type of project (*i.e.*, policy projects built in one sub-region to meet the policy needs of another sub-region). Items f. and g. on pages 16-17 are similarly inconsistent. This comments template suffers from the same lack of clarity, as discussed above in response to questions 11 through 15. The Six Cities reiterate that resolving these complicated allocation scenarios would not be necessary if the existing methodology is retained. However, in the event the CAISO decides to continue down this path of specifically identifying project scenarios and corresponding cost allocations, the Six Cities urge the CAISO to consider whether the different project combinations that it has identified are sufficiently complete.

    The CAISO has proposed an array of different cost allocations that vary according to the type and location of a transmission project and, as to certain policy projects, whether state or local regulatory authorities are "drivers" for the project. What information will the CAISO provide so that transmission customers can understand their total transmission costs, both current costs and future costs? For example, the CAISO's existing practice is to post the currently-effective TAC and WAC rates. Will the applicable TAC charges for specific loads be posted? Similarly, at what stage of the transmission planning process will the CAISO provide specific cost allocation information for particular projects?