Stakeholder Comments Template

Transmission Access Charge Options

August 11, 2016 Stakeholder Working Group Meeting

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the August 11, 2016 stakeholder working group meeting. Topic 1 of the template is for comments on the default cost allocation provisions for new regional transmission facilities, the topic of the morning session of the working group. Topic 2 is for comments on the region-wide TAC rate for exports, which the presentation referred to as the "export access charge" (EAC) and was the topic of the afternoon session of the working group. The ISO invites stakeholders to offer their suggestions for how to improve upon the ideas discussed in the working group meeting.

The presentation for the August 11 meeting 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 **August 25, 2016.**

COMMENTS

The Transmission Agency of Northern California appreciates the opportunity to submit these comments in response to the CAISO's stated "leanings" during the August 11, 2016 working group in the Transmission Access Charge ("TAC") Options stakeholder initiative.

THE PROCESS NEEDS TO REFLECT THE MAGNITUDE OF THE INITIATIVE

Further Detail, Justification and Discussion is Warranted

The importance of this initiative cannot be underscored enough as it will impact the manner in which billions of dollars will be allocated to transmission customers, in California and throughout the West, and in which regional transmission requirements will be planned in an expanded region with diverse needs and interests. Despite the magnitude of the initiative, the CAISO's process thus far is deficient in ensuring that proposals are developed in a transparent manner and are thoroughly vetted. There have been several abrupt and dramatic changes in direction without full explanation, reasoning, or documentation. Given that each proposal has been lacking in detail, it is difficult for interested and impacted entities to provide meaningful input on each variation. Flexibility is appreciated, but providing transparent and complete information on the evolving proposals is equally important to ensure fully informed input of the CAISO's proposals and to engage stakeholders as partners in the development process.

While TANC believes further documentation on the CAISO's new leanings would have been more productive, TANC applauds the CAISO's decision to schedule the working group as an attempt to facilitate discussion and feedback before another formal straw proposal is issued with new concepts and approaches compared to the prior drafts. TANC also appreciates the CAISO's recognition that there is a need to ensure *ex ante* regional cost allocation methodology (ies) are created for ultimate approval by the Federal Energy Regulatory Commission ("FERC"). TANC believes that the next logical step would be for the CAISO to post specific project scenarios and examples (both within the existing CAISO Balancing Authority Area (BAA) and the expanded BAA) to explain the manner in which the proposed default cost allocation methods (including use of the TEAM methodology) would work. The CAISO should then schedule a follow-up working group to vet those examples with stakeholders so that all interested parties can fully understand the ramifications of the proposals and thereafter provide substantive comments reflecting their judgments or positions on the CAISO's latest leanings. This would be an important first step to permit meaningful and productive input on these complex and vital issues of planning and cost allocation for the expanded region.

Without Comprehensive Review and Stakeholder input, the CAISO will not have Meaningfully and Transparently Engaged with Stakeholders on all Aspects of the Proposed Regionalization Structure

As TANC and other parties have repeatedly stated, the development of the TAC for an expanded region cannot be considered in a vacuum nor can the overall regionalization initiative be processed on a piecemeal basis. While there may be some semblance of organization in discussing each issue separately, lack of comprehensive consideration necessitates the caveat that each decision is incomplete and bears an uncertainty on the consequence of each proposal. More importantly, the piecemeal approach to regionalization does not yield transparency in the process.

Specifically, TANC continues to be concerned that the TAC Options are being developed separately from and without consideration for the Transmission Planning Process ("TPP"). The issues discussed during the working group highlight the need for comprehensive consideration with the TPP. For instance, during the August 11, 2016 working group meeting, CAISO asked stakeholders to assume that the TPP will sequentially study the needs and label the project based on the last category in which it was identified. The labeling of the project (depending on a benefit/cost ratio test) would impact cost allocation. However, if this assumption does not hold true when the TPP is developed, positions on the cost allocation methods developed in this process may change.

In addition, many of the questions raised in TANC's June 10, 2016 comments regarding the interplay between the TAC and TPP remain unanswered.[1] For instance, TANC's June 10 comments inquired:

- Whether the TPP will continue to provide a HV TAC estimate each year?
- If two projects provide alternative solutions to transmission problems, but would have different sub-regional cost allocations, how will the CAISO decide which one to choose?
- How would the new regional board be integrated into the TPP?
- As the TPP serves as the ten-year planning document for the CAISO, will the CAISO begin including potential scenarios for an expanded footprint to reflect prospective changes for an expanded planning area? If yes, how may this impact needed transmission projects, and cost allocation of projects?

TANC urges the CAISO to work with stakeholders to develop a common approach and understanding on these related planning and cost allocation issues on a comprehensive basis.

Moreover, as the CAISO noted during the August 11, 2016 working group, the ultimate governing body for the expanded region may decide to reach different cost allocation determinations to the default ones that the CAISO is now vetting. As such, the development of the governance structure is pertinent to the development of the TPP and TAC structure, and warrants coordinated and comprehensive consideration. Similarly, the other important areas of developing an expanded region should be comprehensively considered, including Resource Adequacy, Greenhouse Gas Accounting, and Grid Management Charge issues.

If there is an interest in providing stakeholders with a true and complete picture of the cost, policy, and structural implications of participating in the expanded region at any level (e.g., whether as a customer or as a Participating Transmission Owner), the CAISO must provide stakeholders with the opportunity to review and comment on the full package of the regionalization proposals before any conceptual filings are submitted with FERC.

COMMENTS ON SPECIFIC CAISO AUGUST 11 LEANINGS ON TAC OPTIONS

Need for Clarity on the CAISO's Leanings for Embedded and Electrically Integrated Entities

In the CAISO's May 20, 2016 Revised Straw Proposal, the CAISO proposed that entities that are "embedded within or electrically integrated with an existing sub-region" and that are interested in becoming Participating Transmission Owners would have a one-time choice prior to the integration date to either become part of the sub-region with which it is integrated or become a new sub-region. In TANC's June 10 comments, TANC asserted that this approach is appropriate and should continue through to the final proposal.

[1] TANC's June 10, 2016 Comments on the TAC Options Revised Straw Proposal are accessible at: https://www.caiso.com/Documents/TANCComments-TransmissionAccessChargeOptions-RevisedStrawProposal.pdf

However, during the August 11 workshop, the CAISO asserted that the CAISO's leaning is to no longer permit "embedded" entities (i.e., those non-PTO entities that are located within the CAISO BAA) to exercise this one-time option. The CAISO provided no meaningful explanation for this change in direction, which reflects the lack of transparency on the CAISO's development of the TAC proposal. Accordingly, TANC seeks further clarification and justification on this fundamental issue on the CAISO's proposed expansion of its region. For instance, TANC understands, but seeks CAISO's confirmation on whether the CAISO will: (1) permit "electrically integrated" entities that are not located within the CAISO BAA and in fact are part of neighboring BAAs to maintain the one-time option to become a new sub-region upon joining the new regional ISO; and (2) afford electrically integrated entities the same licensed-plate TAC obligations with respect to existing transmission facilities as has been proposed for PacifiCorp.

TANC also seeks further clarity on how the CAISO defines "embedded" and "electrically integrated." For example, during the August 11 workshop, the CAISO explained that "embedded" entities are those that rely on the CAISO for balancing services. TANC seeks clarification as to which entities it envisions would be encompassed in that definition (e.g., whether Metered Sub-systems that are responsible for balancing their own loads and resources would be encompassed within the definition of "embedded" entities). The CAISO also needs to further refine and explain its proposed use of license plate versus Export Access Charge (EAC) rates for wheeling through and wheeling out of the CAISO.

The Definition of "New Facilities" Fails to Reflect Existing Planning Processes

The CAISO's May 20, 2016 Revised Straw Proposal on TAC Options defined "existing facilities" as transmission assets in-service or planned in the entity's own planning process for its own service area or planning region that have either "begun construction" or have "committed funding" as defined by the Internal Revenue Service, whereas "new facilities" would be transmission projects planned and approved in an integrated transmission planning region for the expanded BAA, including projects that are under review as "interregional" as long as "existing" criteria are not met.

In the presentation for the August 11 working group, the CAISO offered a new definition of "new facilities," as "transmission facilities (additions or upgrades) planned & approved through an expanded TPP conducted by the ISO for the expanded BAA." The CAISO stated a facility will be considered for regional cost allocation if it is rated above 200-kV. The CAISO also noted that expanded transmission planning process would commence in January 1, 2020 consistent with the date PacifiCorp plans to join the CAISO.

TANC understands that the CAISO may be attempting to address legitimate stakeholder concerns with the CAISO's May 20 proposed definition. However, TANC is concerned that the new definition does not account for transmission projects that have begun environmental permitting work.

As a necessary component of transparency of the cost implications of participating in an expanded CAISO region, the CAISO should provide stakeholders with complete information on the CAISO's and PacifiCorp's current 10-year plans, and an assessment (based on the current leanings for default cost allocation and any future proposals) how cost responsibility for how any proposed or contemplated projects would be assigned in an expanded region.

The CAISO's Leanings Regarding the Model for Transmission Planning May Not Be Realistic in an Expanded Footprint

During the August 11 working group, the CAISO noted that it is working under the assumption that the current TPP is a reasonable model for the structure of the future expanded TPP. While the existing TPP may be a reasonable model for the current footprint, it is uncertain if this model will be sustainable in an expanded region. Part of the rationale and benefit of an expanded ISO is the expected re-dispatch and expansion of inter-regional transfers, which could lead to a significant difference on how the current bulk grid is utilized and operated and could very well alter how the future grid should be planned and ultimately expanded.

Default Cost Allocation Concepts Should Adhere to Certain Principles

Consistent with Order 1000 principles, whether a project is intended to meet reliability, economic, or public policy needs (or multiple types of needs), the project selection process should ensure that the most efficient and cost effective solution is selected for regional cost allocation. TANC also believes cost allocation should follow the principle of beneficiary pays. To that end, the cost allocation methodology should incentivize disciplined regional planning where beneficiaries bear the true costs of their policy decisions and benefits, as well as their reliability and economic needs/benefits. We believe it is important the all transmission customers not bear the costs for the policy or resource needs of a subset of grid users.

Improvements Are Needed to the Modeling Approach

As the CAISO plans for an expanded region, the CAISO should fully study and make improvements to its full system model so that it better reflects the operational realities based on real-time, historic operational data, including as to historic congestion on the California-Oregon Intertie ("COI"). TANC (and others) have found and previously commented that the planning studies, such as those currently used in the TPP, fail to realistically account for the impact of planned (as well as unplanned) outages, the interaction of system conditions (i.e. the COI Nomogram), and how congestion on lower voltages and/or the underlying transmission system impact overall pricing and congestion on the Interties. Given that the COI impacts various BAAs, including the PacifiCorp BAA, it is critical that the expanded region's planning reflects an accurate assessment of the COI capability as well as the need to maximize and/or enhance COI transfer capability.

Topic 1. Default Cost Allocation Provisions for New Regional Transmission Facilities

Context

For purposes the working group discussion the ISO assumed that the current structure of the transmission planning process (TPP) would be retained for the expanded BAA. That is, the TPP would consist of a first phase for specifying and adopting planning assumptions including public policy directives that would drive transmission needs, as well as a study plan. The second phase would consist of a sequential process for performing planning studies and identifying reliability projects, followed by policy-driven projects, and finally economic projects. With each successive project category, the ISO may identify a project that serves the need of a project identified in a prior category, in which case the project would be labeled by the last category in which it was identified, but its cost allocation would reflect the benefits in all categories.

By design these two TPP phases take 15 months, at the end of which the ISO would present the comprehensive transmission plan for approval to the governing board for the expanded BAA. At the working group meeting the ISO also pointed out that while the concept of a "body of state regulators" or "Western States Committee" is still under discussion in the context of governance for the expanded BAA, no details have been developed or proposed regarding this entity's role with regard to transmission planning and cost allocation. Moreover, once the default provisions being discussed in the working group are finalized, filed and have been approved by FERC for inclusion in the ISO tariff, any variations or deviations from those provisions would also have to be filed and approved by FERC. Stakeholders should therefore view the current effort to develop default cost allocation provisions as determining the rules that would govern transmission cost allocation for the expanded BAA.

Stakeholders should assume for purposes of their comments that the current ISO TPP structure would be followed in an expanded TPP performed for the expanded BAA. Parties wishing to comment on or suggest alternatives to these assumptions may add any additional comments at the end of this topic.

Questions

1. The working group presentation assumed we would use the current Transmission Economic Assessment Methodology (TEAM) to calculate a project's economic benefits to the BAA as a whole and to each of the sub-regions. Currently TEAM calculates the following types of benefits: efficiency of the economic dispatch, reduction of transmission line losses, and reduction of resource adequacy capacity costs. Are these economic benefit types sufficient for purposes of cost allocation, or should other types of benefits be included? Please describe any additional benefit types you would include in the benefits assessment and suggest how they could be quantified.

2. The ISO's presentation suggested that a sub-region's avoided cost for a needed transmission project could be included among the benefits of a project with region-wide benefits. For example if project A with region-wide economic benefits enables sub-region 1 to avoid a reliability project B that would have cost $40 m, then the $40 m avoided cost should be included in the total benefits of project A for purposes of cost allocation to the sub-regions. Please comment on whether such avoided costs should be included in the benefits for cost allocation purposes.

3. In the example of Question 2 a specific project B was identified to meet a reliability need, and so its avoided cost could be viewed as a realistic estimate of the cost to sub-region 1 of mitigating its reliability need. In many instances in practice, however, cost-effective projects may be identified that provide economic, policy and reliability benefits without the planners ever identifying less costly but narrowly-scoped hypothetical alternative projects that could serve to provide concrete avoided cost estimates. Do you think it is important to perform additional studies to determine meaningful avoided cost estimates to use in cost allocation, perhaps by identifying hypothetical alternatives that would not ordinarily be considered in the TPP? Are there other approaches you would favor for estimating avoided costs to use in cost allocation? What other methods should the ISO consider for allocating reliability or policy "benefits" to a sub-region absent a well-defined project that can be avoided?

4. The cost allocation approach presented at the working group for projects with benefit-cost ratio BCR < 1) started by first allocating cost shares equal to economic benefits, and only

after that allocating remaining costs to the sub-region(s) driving the reliability or policy need. In the discussion, some parties suggested reversing this order, i.e., to start by allocating a cost share to the sub-region with the reliability or policy driver base on the avoided cost of the reliability or policy project it would have had to build, and only then allocating remaining costs based on economic benefit shares. Please state your views on these two approaches, or describe any other approach you would prefer and explain your reasons.

5. The presentation at the working group suggested that all facilities > 200 kV planned through the expanded TPP would be assessed for potential region-wide economic benefits. Some parties suggested the ISO should apply threshold criteria to eliminate projects that clearly would not have region-wide benefits, rather than perform TEAM studies for all > 200 kV. Do you support the use of threshold criteria? If so, what criteria would you apply and why?

6. Do the details of TEAM, e.g., financial parameters, period over which present values are determined, etc., need to be pre-determined to maximize consistency of methodology and criteria across all projects, or should case-by-case considerations be taken into account?

7. Should incidental benefits to a sub-region cause a cost allocation share for that sub-region even though the project would not have been built but for a reliability or policy need in another sub-region?

8. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.

Topic 2. Region-wide "Export Access Charge" (EAC) Rate for Exports and Wheel-throughs

Context

For the working group discussion, the ISO's presentation assumed a scenario where the current ISO BAA is expanded by the integration of a large external PTO such as PacifiCorp, and that the current ISO footprint and the new PTO would each be a "sub-region" with its own separate sub-regional TAC rate for load internal to the sub-region. The ISO further assumed that in this future scenario, only exports and wheel-throughs would pay the new EAC rate, while the "non-PTO" entities internal to the ISO BAA who currently pay the WAC would pay the sub-regional TAC rate. **Please assume the same in responding to the questions below.** If you wish to comment on or propose alternatives to these assumptions you can add any additional comments at the end of this section.

Questions

1. For an expanded BAA do you agree that a single region-wide access charge rate for exports and wheel-throughs is appropriate? Please explain your reasons. NOTE: This question is only about whether a single rate is appropriate, not about how that rate should be determined; the latter is covered in question 3 below.

2. If you answered YES to question 1, do you favor the load-weighted average rate the ISO presented at the meeting, or another method for determining the single rate? Please explain the reasons for your preference.

3. To distribute the revenues collected via the EAC, the ISO's presentation suggested giving each sub-region an amount of money equal to the MWh volume of exports and wheels from the sub-region times the sub-regional TAC rate. Please indicate whether you would support this approach or would prefer a different approach for distributing EAC revenues to the sub-regions.

4. The working group presentation illustrated how the method of distributing EAC revenues to sub-regions would most likely produce "unadjusted" sub-regional shares that do not add up

exactly to the amount of EAC revenues collected from exports and wheels. The presentation offered one approach for distributing any **excess EAC revenues** to the sub-regions. Do you support that approach, or would you prefer a different approach? Please explain.

5. Suppose that in a given year the EAC revenues are not sufficient to cover a distribution to sub-regions that aligns with sub-regional TAC rates, as described in question 3. How would you propose the ISO deal with that situation? I.e., should the ISO ensure that each sub-region receives export revenues equal to its sub-regional internal TAC rate times the volume of exports from its facilities, drawing upon other TAC revenues if necessary, or should the ISO only return EAC revenues to sub-regions until the EAC revenues are used up?

6. If you answered NO to question 1, please explain what rules or principles you would prefer be applied to exports and wheel-throughs. Please discuss both (a) how you would propose to charge exports and wheel-throughs, and (b) how you would distribute the revenues collected to the sub-regions.

7. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.