Stakeholder Comments Template

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

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The ISO provides this template for submission of stakeholder comments on the September 30, 2016 second revised straw proposal. The second revised 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 **October 28, 2016.**

Comments of the Utah Association of Energy Users ("UAE") and Wyoming Industrial Energy Consumers ("WIEC")

UAE and WIEC are unincorporated, non-profit associations whose members are large electric consumers that operate facilities within the service territory of Rocky Mountain Power, from whom they purchase electricity and energy services.

Second Revised Straw Proposal

1. The ISO previously proposed to allow a new PTO that is embedded within or electrically integrated with an existing sub-region to have a one-time choice to join that sub-region or become a separate sub-region. The ISO now proposes that an embedded or electrically integrated new PTO will become part of the relevant sub-region and will not have the choice to become a separate sub-region. This means that the new embedded/integrated PTO's transmission revenue requirements will be combined with

<u>those of the rest of its sub-region and its internal load will pay the same sub-regional TAC rate as the rest of the sub-region. Please comment on this element of the proposal.</u>

UAE and WIEC have not yet determined their positions on this proposal, although they believe the issue should be subject to re-evaluation depending upon specific future circumstances.

2. <u>An embedded PTO is defined as one that cannot import sufficient power into its service territory to meet its load without relying on the system of the existing sub-region. Whether a new PTO is considered electrically integrated will be determined by a case-by-case basis, subject to Board approval, based on criteria specified in the tariff. Please comment on these provisions of the proposal.</u>

   UAE and WIEC have not yet determined their positions on this proposal, although they believe the issue should be subject to re-evaluation depending upon specific future circumstances.

3. <u>The proposal defines "new facilities" as transmission projects planned and approved in an expanded TPP for the expanded ISO BAA. The integrated TPP will begin in the first full calendar year that the first new PTO is fully integrated into expanded ISO BAA. Projects that are under review as potential "inter-regional" projects prior to the new PTO joining may be considered as "new" if they meet needs identified in the integrated TPP. Please comment on these provisions.</u>

   UAE and WIEC support an understandable, bright-line test for distinguishing between existing and new facilities eligible for region-wide cost allocation. The current proposal is an improvement but is still not clear, particularly as to projects currently being "planned" outside the ISO process, but not yet approved by relevant State Commissions. If PacifiCorp joins an expanded ISO, it will be critical for all to understand whether any unconstructed Gateway segments will be considered new or existing facilities to the extent they have been planned through non-ISO processes, but not approved by the relevant state commissions.

4. <u>The ISO previously defined "existing facilities" as transmission assets planned in each entity's own planning process for its own service area or planning region, and that are in service, or have either begun construction or have committed funding to construct. The ISO is now simplifying the proposal to define "existing facilities" as all those placed under operation control of the expanded ISO that are not "new." Please comment on the ISO's proposed new definition of "existing facilities."</u>

See UAE and WIEC's comments in response to question #3, above.

5. <u>Consistent with the previous revised straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional "license plate" TAC rates. The ISO has proposed that each sub-region's existing facilities comprise "legacy" facilities for which subsequent new sub-regions have no cost responsibility. Please comment on this aspect of the proposal.</u>

   UAE and WIEC support this aspect of the proposal. As described in greater detail in response to #18, UAE and WIEC also support the use of demand-based billing determinants in setting TAC rates or, at a minimum, the use of demand-based billing determinants in the PacifiCorp sub-region.

6. <u>The ISO proposes to use the Transmission Economic Assessment Methodology (TEAM) to determine economic benefits of certain new facilities to the expanded ISO region as a whole and to each sub-region. Please comment on these uses of the TEAM.</u>

   UAE and WIEC support the use of robust production cost modeling for estimating regional benefits and allocating costs. However, UAE and WIEC are not sufficiently familiar with specific aspects of TEAM to provide more detailed comments at this time. Both UAE and WIEC have concerns about cost allocation for policy driven projects, and the ability of one state to impose the costs associated with a policy driven project on another. Consequently, UAE and WIEC believe that assumptions that may used in the TEAM economic analysis for one jurisdiction that reflect that jurisdiction's policies (e.g., GHG prices) should not be "exported" to economic analyses conducted for jurisdictions that do not share the same policies. However, the CAISO states, "with regard to policy-driven projects for which this point is most relevant, the proposed WSC may be a preferable venue in which to address such matters" and that "for purposes of the present proposal, the ISO is limiting the cost allocation discussion to the sub-regional granularity level."[1] Accordingly, UAE and WIEC will direct their comments on this issue to the Western States Committee and Principles on Governance proposals.

7. <u>For a reliability project that is narrowly specified as the more efficient or cost-effective solution to a reliability need within a sub-region, and has not been expanded or enhanced in any way to achieve additional benefits, the ISO proposes to allocate the project cost entirely to the sub-region with the driving reliability need, regardless of any</u>

[1] Transmission Access Charge Second Revised Straw Proposal at pages 11-12.

incidental benefits that may accrue to other sub-regions. Please comment on this provision.

UAE and WIEC support this provision.

8. For a policy-driven project that is connected entirely within the same sub-region in which the policy driver originated, the ISO proposes to allocate the project cost entirely to the sub-region with the driving policy need, regardless of any incidental benefits that may accrue to other sub-regions. Please comment on this provision

   UAE and WIEC support this provision. Again, however, UAE and WIEC have concerns about cost allocation for policy driven projects and the ability of one state to impose the costs associated with a policy driven project on another. As discussed above in response to #6, UAE and WIEC will direct their comments on this issue to the Western States Committee and Principles on Governance proposals.

9. For a purely economic project with benefit-cost ratio (BCR) > 1, cost shares will be allocated to sub-regions in proportion to their benefits, and because BCR > 1 this completely covers the costs. A purely economic project is one that is selected on the basis of the TPP economic studies following the selection of reliability and policy projects, and is a distinct new project, not an enhancement of a previously selected reliability or policy project.

   UAE and WIEC generally support this provision. However, given the inherent inaccuracy and uncertainty of model inputs and calculations that of necessity stretch out for decades, UAE and WIEC do not support requiring any sub-region or state to pay the costs of an "economic" project with a BCR of only 1. No state or sub-region should be required to pay the costs of a project whose economic benefits cannot clearly be shown to outweigh its costs. This is particularly true where, as described in Section 3.2 of the Western States Committee Primary Authority Discussion Paper, economic solutions are considered last where no reliability or policy solutions are found. In other words, if there is no reliability or policy justification for the project, the economic justification should be greater than a BCR of 1. There should be concrete evidence of positive net benefits for such a project. Assuming they can become comfortable with the models and inputs used, UAE and WIEC might support benefit-based allocation of costs for projects with a BCR in the 1.1 to 1.25 range, but a marginally economic project should be considered equivalent to a policy project that should only proceed with the consent and agreement to pay costs by one or more states or sub-regions.

10. For an economic project that results from modifying a reliability or policy-driven project to obtain economic benefits greater than incremental project cost, the ISO proposes to first, allocate avoided cost of original reliability or policy-driven project to the relevant sub-region, then allocate incremental project cost to sub-regions in proportion to their economic benefits determined by TEAM. This is called the "driver first" approach to cost allocation. The proposal also illustrated an alternative "total benefits" approach. Please comment on your preferences for either of these approaches.

    Subject to UAE and WIEC's comments in response to question #8 above, UAE and WIEC support a "driver first" approach.

11. The proposal outlined two scenarios for policy-driven projects involving more than one sub-region. In scenario 1, where a project built within one sub-region meets the policy needs of another sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the sub-region that was the policy-driver. Please comment on this cost allocation approach for scenario 1.

    UAE and WIEC support cost allocation for policy-driven projects only to those states whose policies drive the need for the project and who have affirmatively agreed to help bear the costs. UAE and WIEC do not support a proposal that permits one sub-region to impose costs associated with a policy-driven project on another sub-region, even where that other sub-region may benefit from the policy driven project. Such a proposal would force another sub-region, and other states, to support financially the policy goals of the state driving the policy. UAE and WIEC do not believe any support has been provided for the statement, "The ISO expects that such a project would likely have significant benefits to sub-region B, so that allocation of the full costs to A would not be appropriate."[2]

    As UAE and WIEC will discuss in their comments on the Western States Committee Primary Authority Discussion Paper and the Second Revised Principles on Governance, UAE and WIEC believe that the costs associated with policy-driven projects should be affirmatively accepted by those states that support the policy and that no costs should be imposed on states that do not affirmatively support the project, even if they benefit from the project. UAE and WIEC believe that this will protect state autonomy and encourage collaboration among states that support a particular project. However, the establishment of a default cost allocation method, such as the TEAM method, could potentially undercut a collaborative effort from those states supporting a policy-driven project. As a result, UAE and WIEC have concerns about the existence of any default cost allocation method.

[2] Transmission Access Charge Second Revised Straw Proposal at page 13.

UAE's and WIEC's concerns about cost allocation within a sub-region for policy-driven projects, and the ability of one state to impose the costs associated with a policy-driven project on another, will be addressed more fully in their comments on the Western States Committee Primary Authority Discussion Paper and the Second Revised Principles on Governance.

12. In scenario 2, where a policy project meets the policy needs of more than one sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the relevant sub-regions in proportion to their internal load for project in-service year. Please comment on this cost allocation approach for scenario 2.

UAE and WIEC support cost allocation for policy-driven projects only to those states whose policies drive the need for the project and who have affirmatively agreed to help bear the costs. As discussed immediately above in response to question #11, UAE and WIEC believe that the costs associated with policy-driven projects should be affirmatively accepted by those states that support the policy, and that no costs should be imposed on states that do not affirmatively support the project, even if they benefit from the project. UAE and WIEC believe that this will protect state autonomy and encourage collaboration among states that support a particular project. However, the establishment of a default cost allocation method, such as the TEAM method, could potentially undercut a collaborative effort from those states supporting a policy-driven project. As a result, UAE and WIEC have concerns about the existence of any default cost allocation method.

UAE's and WIEC's concerns about cost allocation within a sub-region for policy-driven projects, and the ability of one state to impose the costs associated with a policy-driven project on another will, be addressed more fully in their comments on the Western States Committee Primary Authority Discussion Paper and the Second Revised Principles on Governance.

13. 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, regardless of whether their costs are allocated to only one or more than one sub-region, with exceptions only for upgrades to existing facilities as stated in ISO tariff section 24.5.1. Please comment on this proposal.

UAE and WIEC support a strong commitment to competitive solicitation.

14. The ISO proposes to drop the earlier proposal to recalculate benefit and cost shares for sub-regions and the proposal to allocate cost shares to a new PTO for a new facility that was planned and approved through the integrated TPP but before that new PTO joined the expanded ISO. Please comment on the elimination of these proposal elements.

    UAE and WIEC have not yet determined their positions on this proposal.

15. The ISO proposes to establish a single region-wide export rate ("export access charge" or EAC) for the expanded region, defined as the load-weighted average of the sub-regional TAC rates. Please comment on this proposal.

    UAE and WIEC oppose the use of a single ISO-wide EAC, as it would likely result in significant and unjustified cost-shifting.

16. Under the EAC proposal, non-PTO entities within a sub-region would pay the same sub-regional TAC rate paid by other loads in the same sub-region, rather than the wheeling access charge (WAC) they pay today. Please comment on this proposal.

    This proposal requires greater clarification and detail before UAE and WIEC are able to take a position on this issue.

17. The ISO proposes to allocate EAC revenues to each sub-region in proportion to their transmission revenue requirements. In the August 11 working group meeting the ISO presented the idea of allocating EAC revenues to each sub-region in proportion to its quantity of exports times its sub-regional TAC rate. Please comment on these two approaches for EAC revenue allocation, and suggest other approaches you think would be better and explain why.

    UAE and WIEC believe the most appropriate approach for allocating EAC revenues is to allocate them in proportion to its quantity of exports. Absent the formation of a regional ISO, each sub-region would retain its export revenues based on the legacy transmission infrastructure built by the PTO and the economic trading opportunities that investment enabled. The formation of a regional ISO should not by itself result in a redistribution of these revenues.

    However, allocating EAC revenues to each sub-region in proportion to its transmission revenue requirements would remove any nexus between exports and the legacy investments made by PTOs (and typically paid for by their customers) to enable said exports. Instead, revenues would be allocated effectively on aggregate load size as

reflected in each sub-region's transmission revenue requirement. This is a recipe for an unwarranted benefit shift.

The analysis presented in the table on page 18 of the 2nd Revised Straw Proposal demonstrates that the proposal to allocate EAC revenues to each sub-region in proportion to their transmission revenue requirements is unlikely to pass a basic reasonableness test. Granted, due to the distortion of counting transfers between PAC-w and PAC-E as exports, the analysis probably does not accurately reflect PacifiCorp's exports to external regions. Nevertheless, the magnitude of the difference between current CAISO export revenues ($18 million) and the CAISO share of EAC revenues that would obtain under TRR-weighting ($141 million in the low-end case) is a strong indication that the recommendation in the 2nd Revised Straw Proposal would result in a significant and unreasonable benefit shift. The most-recently recommended approach appears to be unreasonable on its face.

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

UAE and WIEC reiterate their previously-stated concerns that the CAISO's continued reliance on a per-MWh charge alone could significantly affect cost-causation and cost-allocation assumptions that have been used for many decades by regulatory authorities in states in which PacifiCorp currently does business, as it ignores the impacts of peak loads. Both at the interjurisdictional cost allocation level and in class cost allocations, regulatory authorities in many of PacifiCorp's service territories have viewed contribution to coincident system peak as an important cost-driver for generation and transmission resources. If cost causation assumptions for transmission resources are perceived to have changed to include only the contribution of MWh throughput, significant cost-shifts could occur, both among PacifiCorp jurisdictions and among classes within many of those jurisdictions. Transmission costs incurred by and allocated to PacifiCorp must continue to reflect the significant cost-causative nature of peak loads to avoid a significant and unacceptable risk to customers of unintended cost shifts, both with respect to existing resources and future transmission projects.

UAE and WIEC recognize that it is not the intention of the Revised Straw Proposal to determine or otherwise influence the allocation of transmission costs among PacifiCorp's state jurisdictions or among customer classes within any PacifiCorp jurisdiction. UAE and WIEC also believe that the allocation of costs among the PacifiCorp state jurisdictions is an exercise that is conceptually distinct from the determination of a TAC applicable to PacifiCorp. However, if the depiction of PacifiCorp's transmission rates is changed to reflect the per-MWh TAC design preferred in the Straw Proposal, then that introduces the risk that at some point in the future, the TAC rate design will be conflated with cost causation. At a minimum, each sub-region should be free to design a TAC that includes demand-based allocators.