Stakeholder Comments Template

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

Submitted by	Company	Date Submitted
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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.**

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 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.

   The Utah Office of Consumer Services (Utah OCS) recommends that the determination of whether a new PTO joins an existing sub-region or constitutes its own sub-region be subject to the joint approval of all concerned jurisdictions.

2. 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.

The Utah OCS recommends that, instead of instituting ad hoc definitions of "embedded PTO" and "electrically integrated PTO," the determination of whether a new PTO joins an existing sub-region or constitutes its own sub-region be left to the joint approval of all concerned jurisdictions.

3. 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.

   The Second Revised Straw Proposal has the same flaw as the initial Straw Proposal and the Revised Straw Proposal in that the definition does not allow one to determine unambiguously whether a given project is "new" or "existing." This concern was also conveyed in the Utah OCS comments to Item #2 of the initial Straw Proposal as well as to Item #2 of the Revised Straw Proposal. The Utah OCS reiterates the need for more clear definitions, supplemented by examples, including the Gateway South project that was highlighted in our comments to both the initial Straw Proposal and the Revised Straw Proposal, to allow stakeholders to be able to assess the ISO's proposal factually. For example, by the time the first "integrated TPP" begins, potentially several years from now, Gateway South and Gateway West may be in advanced stages of development. In this case, could these projects be considered "new"?

4. 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."

   See the Utah OCS' response to Question 3 above. Since the ISO's definition of "new facilities" is not clear, the definition of "existing facilities" is also ambiguous under this proposal.

5. 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.

   The Utah Office of Consumer Services supports the proposal.

6. 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.

   The Utah OCS in its August 30 comments to the August 11, 2016 stakeholder working group meeting stated:

   > *Before stakeholders are asked to assess the ISO's proposed TEAM methodology, the ISO should present to the stakeholders how benefits are quantified in each*

> *major U.S. ISO/RTO's economic planning and/or cost allocation processes as well as in the other western planning regions (NTTG, ColumbiaGrid, WestConnect) and compare the ISO's proposal to the processes of these ISO/RTOs and western planning regions.*

The ISO responded to our comment by stating:

> *In response to UOCS' request for a review of benefits calculations in each major U.S. ISO/RTO, the ISO presented in the March 1, 2016 meeting a comparison of ISO/RTO benefits calculation for policy projects as well as proposed alternative assessments such as DFAX.*[1]

The Utah OCS reiterates its position and request, as the ISO did not present the calculation of benefits (i.e. the exact metrics used in quantifying benefits such as production cost savings, reduced congestion costs, resource adequacy cost savings, etc., or a combination/weighted average of thereof) used in the economic planning processes of major U.S. ISO/RTOs or in other western planning regions. Once the ISO presents this information in comparison to the ISO's TEAM methodology, the Utah OCS and other stakeholders will be in a position to render an informed opinion on the proposal.

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

   The Utah Office of Consumer Services supports the proposal.

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

   The Utah Office of Consumer Services supports the proposal.

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.

   Please see our response to Question 6 above.

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

[1] TAC Options: Second Revised Straw Proposal, Addendum – Responses to Stakeholder Comments, October 6, 2016, p. 6.

allocation. The proposal also illustrated an alternative "total benefits" approach. Please comment on your preferences for either of these approaches.

The Utah OCS supports the first part of the proposal (first allocating avoided cost of original reliability or policy-driven project to the relevant sub-region). See the Utah OCS' response to Question 6 above regarding the second part of the proposal.

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.

    The Utah OCS opposes the proposal. The Utah OCS believes that, regardless of which sub-region a policy-driven project is constructed in, if a state's policy is driving the need for a project, then that state should initially be responsible for all the costs of the project. Once the project is in-service and actual benefits can be measured, then it would be appropriate to ask other states to share in the costs based on the benefits achieved. However, no non-policy state should have to bear any costs that exceed its benefits.

    In this aspect of the proposal, the ISO is contradicting its own reasoning in the following statement:

    > *[T]he ISO recognizes that a reliability-driven project that is approved solely to meet an identified reliability need within a sub-region may provide incidental benefits to another sub-region, but the project would not be built but for the reliability need and therefore the cost should be allocated entirely to the sub-region whose reliability need was the driver of the project.*[2]

    The Utah OCS asserts that the ISO's "but for" reasoning cited above should also prevail for this aspect of a policy-driven proposal.

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.

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.

[2] *Id.*, p. 6.

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.

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.

    The Utah OCS in its August 30 comments to the August 11, 2016 stakeholder working group meeting stated:

    > *PJM and MISO have a single region-wide access charge rate for export and wheel-through transactions while SPP does not. It is more important to implement an efficient rate design that respects the existing arrangements and revenue levels in the PacifiCorp sub-region.*

    In the same comments, the Utah OCS also stated:

    > *It is also important to ensure that each sub-region, at least initially, continues to collect as much in export/wheeling transmission revenues after the expansion as it would have absent the expansion. Reduced export/wheeling revenues would lead to higher net transmission costs for native/retail load and thus higher rates for end-use customers in that sub-region. On the other hand, raising PacifiCorp's export and wheel-through transmission rates significantly may allow PacifiCorp to increase its export revenues at the expense of significantly higher transmission costs for PacifiCorp's existing transmission-dependent customers.*
    >
    > *To ensure a balance between these two concerns and to avoid a rate shock on any given group of customers, the ISO may need to implement a Transition Period where PacifiCorp continues to employ a similar transmission service rate design and charge similar transmission rates compared to the pre-expansion status quo for a certain number of years (such as five years). This will allow PacifiCorp and all stakeholders to observe the transaction volumes and any transmission revenue over-collections or shortfalls based on post-expansion market dynamics. Armed with this knowledge, the expanded ISO and stakeholders may proceed to harmonize or redesign transmission access charges across the expanded ISO at the conclusion of the Transition Period.*

    The Utah OCS reiterates both of these positions. In addition, the Utah OCS maintains that the impact of any change to PacifiCorp's wheeling revenue (and to any other transmission revenue/costs) from the implementation of an EAC mechanism should be accounted for in any cost benefit evaluation performed of PacifiCorp joining the regional ISO.

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.

The impact of this proposal on various transmission-dependent customers in the PacifiCorp sub-region as well as on PacifiCorp's wheeling revenue from these entities (and thus on PacifiCorp's bundled customers) is unclear. The reason this impact is unclear is that the ISO (or PacifiCorp) did not present these volumes and dollar amounts based on historical transmission reservation/usage patterns. The ISO and/or PacifiCorp should calculate these impacts and present them to the stakeholders. The Utah OCS cannot render an informed opinion on this proposal until these figures are made available.

17. <u>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.</u>

The Utah OCS opposes the proposal.

The table on page 18 of the Second Revised Straw Proposal suggests that the TRR-weighted allocation approach will result in under-collection of wheeling revenues by PacifiCorp compared to the status quo. According to the table on page 18, PacifiCorp's wheeling revenue under the TRR-weighted allocation approach is likely to be between \$20 million (under the 50% E2 scenario) and \$38 million (under the extremely optimistic 100% E2 scenario). A back-of-the-envelope calculation for PacifiCorp's wheeling revenue under the status quo, using 34,996,078 MWh of wheeling transactions (from the table on page 18) and PacifiCorp's Point-to-Point Transmission rate of approximately \$3.40/MWh (based on weekly, monthly and yearly, firm and non-firm, rates effective June 1, 2016), results in approximately \$119 million. Even if PacifiCorp is unable to collect this entire amount because some of these wheeling megawatt-hours are scheduled by PacifiCorp itself, it is clear that PacifiCorp will be losing a large amount of wheeling revenue under the ISO's proposed EAC construct with TRR-weighted allocation of EAC revenues. The reduction in PacifiCorp's wheeling revenue will be made up by PacifiCorp's bundled retail customer, leading to a rate increase for these customers. This is neither just nor reasonable, given the estimated gigantic increase in the CAISO sub-region's export revenues (from \$15 million to between \$142 million and \$270 million) from the status quo to the ISO's proposal of TRR-weighted allocation of EAC revenues. This proposal directly and unfairly transfers a large sum of transmission service revenue from PacifiCorp's bundled retail customers to the CAISO sub-region.

The ISO (or PacifiCorp) did not present the anticipated post-integration wheeling/export volumes and associated wheeling revenues based on historical transmission reservation/usage patterns in the PacifiCorp sub-region. The ISO and/or PacifiCorp should calculate these impacts and present them to the stakeholders so that the stakeholders can assess the magnitude of wheeling revenue losses PacifiCorp is expected to incur as well as the magnitude of transfers from PacifiCorp customers to the CAISO-sub-region under the ISO's TRR-weighted allocation of EAC revenues construct.

See our answer to Question 15 for the principles the ISO should adhere to for fair treatment of all customers/sub-regions and a smooth transition to post-integration era. Furthermore, the Utah OCS again maintains that the impact of any change to

PacifiCorp's wheeling revenue (and to any other transmission revenue/costs) from the implementation of an EAC mechanism should be accounted for in any cost benefit evaluation performed of PacifiCorp joining the regional ISO.

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