

Stakeholder Comments Template

Transmission Access Charge Options

February 10, 2016 Straw Proposal & March 9 Benefits Assessment Methodology Workshop

Submitted by	Company	Date Submitted
<i>Ellen Wolfe</i>	<i>Resero Consulting for Western Power Trading Forum</i>	<i>March 22, 2016</i>

The ISO provides this template for submission of stakeholder comments on the February 10, 2016 Straw Proposal and the March 9, 2016 stakeholder working group meeting. Section 1 of the template is for comments on the overall concepts and structure of the straw proposal. Section 2 is for comments on the benefits assessment methodologies. As stated at the March 9 meeting, the ISO would like stakeholders to offer their suggestions for how to improve upon the ISO's straw proposal, and emphasizes that ideas put forward by stakeholders at this time may be considered in the spirit of brainstorming rather than as formal statements of a position on this initiative.

The 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 **March 23, 2016**.

Section 1: Straw Proposal

1. The proposed cost allocation approach relies on the designation of “sub-regions,” such that the current CAISO BAA would be one sub-region and each new PTO with a load service territory that joins the expanded BAA would be another sub-region. Please comment on the proposal to designate sub-regions in this manner.

WPTF recognizes that the idea of separate TACs to account for the existing systems of each sub-region is a contentious and difficult issue because the purpose of an integration of the sub-regions into one RTO is based on the recognition that there are long term benefits for all the sub-regions that accrue from the integration. From that perspective, separate TACs are not particularly efficient, and therefore consideration of a transition period to a combined TAC will likely require further consideration. WPTF also seeks

further information on the impact of such a definition given that certain PTO loads may not be particularly contiguous and in the case where a future potential PTO may sit essentially inside the existing CAISO BAA.

2. The proposal defines “existing facilities” as transmission facilities that either are already in service or have been approved through separate planning processes and are under development at the time a new PTO joins the ISO, whereas “new facilities” are facilities that are approved under a new integrated transmission planning process for the expanded BAA that would commence when the first new PTO joins. Please comment on these definitions.

WPTF seeks clarity as the ISO progresses as to whether these sets are entirely clear and mutually exclusive. Further clarity is needed because much discussion during the workshop centered around planned and anticipated projects in the PAC area, and whether those projects should be treated as though they were projects approved through a regional planning process and therefore should be afforded regional cost allocation. These projects that do not fit neatly in the “new” facility category require careful consideration and WPTF would offer that if any of these projects are to be considered “regional” rather than “sub-regional” from a cost allocation standpoint, there must also be consideration that such projects should be subject to competitive solicitations in accordance with FERC’s Order 1000 requirement. In short, WPTF cautions that projects that one PTO may want to build that the PTO believes may benefit the entire integrated footprint cannot “have their cake and eat it too” – that is, if the project is to be afforded regional cost allocation, it should be required to meet all the requirements of integrated transmission planning, including competitive solicitations. Therefore, WPTF asks the CAISO to work diligently to ensure the proper incentives are in place in designations such as “existing” and “new” facilities.

3. Using the above definitions, the straw proposal would allocate the transmission revenue requirements (TRR) of each sub-region’s existing facilities entirely to that sub-region. Please comment on this proposal.

This proposal seems to be a compromise proposal intended to encourage regionalization without heavily encumbering new PTOs. WPTF recognizes the proposal as such and agrees that it is a viable approach in order to avoid rate shock, as any approach that creates a new system wide TAC is likely to be strongly resisted by any new entity that would see a sharp increase in its rates as a result of such an approach. However, as noted in the response to questions #1 and #2 above, the premise of regional integration is that it creates long term benefits for all entities who share access to the combined transmission

system, and those benefits need to be kept in mind, as the near term cost shifts from the integration are addressed.

4. If you believe that some portion of the TRR of existing facilities should be allocated in a shared manner across sub-regions, please offer your suggestions for how this should be done. For example, explain what methods or principles you would use to determine how much of the existing facility TRRs, or which specific facilities' costs, should be shared across sub-regions, and how you would determine each sub-region's cost share.

See response to Questions #1, #2, and #3 above.

5. The straw proposal would limit "regional" cost allocation – i.e., to multiple sub-regions of the expanded BAA – to "new regional facilities," defined as facilities that are planned and approved under a new integrated transmission planning process for the entire expanded BAA and meet at least one of three threshold criteria: (a) rating > 300 kV, or (b) increases interchange capacity between sub-regions, or (c) increases intertie capacity between the expanded BAA and an adjacent BAA. Please comment on these criteria for considering regional allocation of the cost of a new facility. Please suggest alternative criteria or approaches that would be preferable to this approach.

As others discussed in the stakeholder meeting, the (a) criterion – greater than 300 kV – seems redundant to a degree with the (b) and (c) criteria. Moreover, WPTF notes that a 300 kV threshold will create significant dislocations with respect to the current FERC Order 1000 thresholds for competitive solicitations that are predicated upon a 200 kV threshold. In order to eliminate those dislocation, WPTF urges the ISO to consider dropping the 300 kV criteria and using for the (b) and (c) conditions alone. In any event, WPTF encourages the CAISO to further define how increases in interchange or intertie capacity would be measured. It would seem some level of impact would be important. Defining this more precisely would seem to further render unproductive the strict kV threshold. For example, if the (b) and (c) criteria were set to 5% for example, and a 220 kV project had a > 5% benefit on transfer capability but a 500 kV project had a less than 5% impact, it is unclear why the 500 kV project should be considered a regional project in this instance. In short, we recommend the ISO refining (b) and (c) and then, considering dropping (a).

6. For a new regional facility that meets the above criteria, the straw proposal would then determine each sub-region's benefits from the facility and allocate cost shares to align with each sub-region's relative benefits. Without getting into specific methodologies for determining benefits (see Section 2 below), please comment on the proposal to base the cost allocation on calculated benefit shares for each new regional facility, in contrast to,

for example, using a postage stamp or simple load-ratio share approach as used by some of the other ISOs.

WPTF's answer to this question is dependent upon the nature of the "benefits" analysis. A resulting policy that applies a fundamental measure of benefits seems beneficial so long as the measurement is not overly arbitrary, imprecise or cumbersome. This would allow projects that create an especially large benefit to be funded by those that receive the benefit. However, and again as noted above, the premise for regional integration is that benefits accrue over the long term to all entities in the combined footprint, and from that perspective, postage stamp rates for new facilities would be the most economically efficient approach. Having said that, WPTF recognizes that the process of transmission expansion planning will continue to look at each of these three categories separately, and to the extent there is any motivation to assign some sort of arbitrary "policy" benefit, WPTF would be more inclined to support a less differentiating policy such as a postage stamp approach, so long as the differentiating policy do not compromise the exiting FERC Order 1000 rules that govern competitive solicitations for transmission projects.

7. The straw proposal says that when a subsequent new PTO joins the expanded BAA, it may be allocated shares of the costs of any new regional facilities that were previously approved in the integrated TPP that was established when the first new PTO joined. Please comment on this provision of the proposal.

WPTF supports this approach, which put another way is that facilities that are initially designated as "new" are always "new" and any PTO that joins must participate in the costs of the new facilities. This approach is preferable because it is simple to implement, and allows each PTO that is considering joining the expanded BAA to know just what the "rules" are for joining. (That is, it doesn't require an elaborate tracking of which PTO is accountable to fund which projects.) This approach is also preferable to an approach that seeks to determine if the new PTO actually benefits from the new facilities in the expanded BAA that it is joining, and only if some benefit is established would they have to pay for them – that approach will likely be very contentious and arbitrary. Likewise, the alternative approach of excluding the allocation of costs to PTOs as they join is not preferable because it will result in an incentive for PTOs to delay until certain transmission facilities are otherwise approved and funded before joining.

8. The straw proposal says that sub-regional benefit shares – and hence cost shares – for the new regional facilities would be re-calculated annually to reflect changes in benefits that could result from changes to the transmission network topology or the membership of the expanded BAA. Please comment on this provision of the proposal.

With respect to the changes to the transmission topology, WPTF does not have a strong opinion at this time about the benefit of having the allocation be dynamic with changing conditions versus the added complexity of re-running the allocation each year. As noted, however, in the response to Question 7, WPTF does support that idea that new entities

that join an expanded BAA should be required to take an allocation of the costs of new facilities approved and built by the expanded BAA before they joined, which would require the rates to be re-set when new entities join.

9. Please offer any other comments or suggestions on the design and the specific provisions of the straw proposal (other than the benefits assessment methodologies).

WPTF has no additional comments at this time.

Section 2: Benefits Assessment Methodologies

10. The straw proposal would apply different benefits assessment methods to the three main categories of transmission projects: reliability, economic, and public policy. Please comment on this provision of the proposal.

WPTF has concerns with the idea that there could be separate benefit assessments and allocation decisions to the three types of projects, primarily because WPTF believes that all transmission expansions should be “economic” whether they are designed to meet specific reliability requirement or public policy initiatives. For reliability projects, a *determination of need* must be made based on reliability, and economics should play a role in the selection of solutions, of course. In this regard, the proposed allocation method seems inferior to the production cost method that is proposed for economic projects. As result, WPTF proposes that once a reliability solution is chosen, the allocation basis should be similar to that employed for economic projects if the project offers any economic benefit. An alternative allocation method may be needed for reliability projects that span PTOs but offer no particular economic benefits.

However, the process of establishing the appropriate category for such projects must be consistent with FERC’s Order 1000 requirements for competitive solicitations of projects that are identified in the transmission planning process.

Lastly, while the CAISO has not proposed an allocation method for policy projects, WPTF’s position at this time is that an economic allocation of benefits offers the most efficient cost allocation, and economics should always play a prominent role in evaluating such projects, in order to avoid opening a “pandora’s box” of poor incentives and inefficient cost allocation outcomes. Policy projects may aid in fulfilling policy goals but they should also offer economic benefits in excess of costs and should be allocated based on those resulting benefits, even while respecting the different environmental mandates that various states may have. And again, with respect to projects that are identified as meeting public policy requirements, the competitive solicitation requirements of Order 1000 must remain intact.

11. The straw proposal would use the benefits calculation to allocate 100 percent of the cost of each new regional facility, rather than allocating a share of the cost using a simpler postage stamp or load-ratio share basis as some of the other ISOs do. Please comment on this provision of the proposal.

WPTF sees no benefit at this time to “watering down” an allocation that would otherwise be done on an economic benefit basis.

12. Please comment on the DFAX method for determining benefit shares. In particular, indicate whether you think it is appropriate for reliability projects or for other types of projects. Also indicate whether the methodology described at the March 9 meeting is good as is or should be modified, and if the latter, how you would want to modify it.

See answer to #10. At this time, there is nothing about DFAX that seems superior to the economic allocation approach.

13. Please comment on the use of an economic production cost approach such as TEAM for determining benefit shares. In particular, indicate whether you think it is appropriate for economic projects or for other types of projects. Also indicate whether the methodology described at the March 9 meeting is good as is or should be modified, and if the latter, how you would want to modify it.

See answer #10. At this time, WPTF offers no specific enhancements to TEAM.

14. At the March 9 meeting some parties noted that the ISO’s TEAM approach allows for the inclusion of “other” benefits that might not be revealed through a production cost study. Please comment on whether some other benefits should be incorporated into the TEAM for purposes of this TAC Options initiative, and if so, please indicate the specific benefits that should be incorporated and how these benefits might be measured.

We understand why the “other” category may be productive for project *selection* purposes. Generally, an “other” category seems dangerous for cost allocation purposes in that it may create an arbitrary “lever” of sorts where the result of the allocation could change without objective policies for including such other attributes. To the extent the ISO may want to consider this option, we’d suggest an assessment of the other benefits that the ISO has considered in the past and the ISO’s input on how it would have planned to adjust the cost allocation for such other attributes.

15. Regarding public policy projects, the straw proposal stated that the ISO does not support an approach that would allocate 100 percent of a project’s costs to the state whose policy

was the initial driver of the need for the project. Please indicate whether you agree with this statement. If you do agree, please comment on how costs of public policy projects should be allocated; for example, comment on which benefits should be included in the assessment and how these benefits might be measured.

WPTF agrees, and refers to the answer provided above in #10. We believe the concept of a policy project for RPS goals or any other purpose in a multi-state ISO is very ambiguous at this point. California has renewable goals and mandates, but those mandates create markets that in turn create choices of where to get its renewable supplies, and how those choices are made should be as economically efficient as possible. Further, other states have renewable goals and/or economic development goals. As a result, to presume that a state is a predominant driver of a project seems entirely misplaced at this time, and will compromise the overall benefits that are expected from regional integration, and increased competition for transmission expansions.

16. At the March 9 and previous meetings some parties suggested that a single methodology such as TEAM, possibly enhanced by incorporating other benefits, should be applied for assessing benefits of all types of new regional facilities. Please indicate whether you support such an approach.

See response to #10.

17. Please offer comments on the BAMx proposal for cost allocation for public policy projects, which was presented at the March 9 meeting. For reference the presentation is posted at the link on page 1 of this template.

The BAMx proposal would allocate costs of transmission projects to the generators and LSEs using the project, although at this time, it is unclear precisely which generators would be assigned to a new project for allocating costs.

While WPTF does not support per se BAMx's proposal at this time, the BAMx proposal raises some interesting points. First, it seems that BAMx's proposal is similar to the approach that would be applied for an independent merchant transmission project. Given this, there is nothing stopping such a mechanism from working at this time through merchant development, whereby a transmission project is developed, usage is contracted for and the merchant is given CRRs for their project which could then be passed along to the generators and/or LSEs moving energy across the project.

That said, few projects are developed using the merchant model. This suggests that there continues to be a social good attribute of project the CAISO has developed that cannot easily be assigned to one entity or another. WPTF appreciates a concern that seems to underlie the BAMx proposal, that being that there are too many projects being developed as if they offer a "social good" to a society that wouldn't otherwise directly agree to fund such projects. WPTF has a similar concern, in particular, when it comes to the possibility of expanding the policy driven projects across PTO regions, and we wish to ensure the

policies are such that one PTO will not tend to promote a project that it expects another PTO population to pay for without a clear demonstration that benefits accrue to that PTO population who would be assigned the project costs. To this end, WPTF supports the issues and concerns that the BAMx proposal seems intended to address and in particular for the ISO as part of this design process to be very explicit and transparent about how the process will protect against transmission projects without clear economic benefits in excess costs being approved with costs assigned beyond benefits – in particular to one sub-population of the entire footprint.

18. Please offer any other comments or suggestions regarding methodologies for assessing the sub-regional benefits of a transmission facility.