Stakeholder Comments Template

Transmission Access Charge Options

December 6, 2016 Draft Regional Framework Proposal

Submitted by	Company	Date Submitted
Tom Darin *Phone: 720-244-3153* *Lisa Hickey* *Phone: 719-302-2142*	*American Wind Energy Association* *Interwest Energy Alliance*	*January 11, 2017*

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

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."

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."

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.

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.

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.

   AWEA and Interwest continue to strongly support consideration of a broader suite of benefits as part of TEAM. Unfortunately, as currently defined, TEAM does not adequately capture all of the economic benefits associated with transmission development and many significant categories of benefits are not calculated as part of TEAM.

   We continue to urge the ISO to consider modifications to TEAM that will better capture actual benefits, especially access to lower costs generation resources. Our prior comments, especially those submitted in response to the Second Revised Straw Proposal, speak to why considering a broad suite of economic benefits is important. Those prior comments also address how the current methodology may ignore large categories benefits, especially those associated with lower cost renewable resources, which are becoming increasingly important for utilities with, and utilities without, policy needs. Ignoring the benefits of low cost renewable resources in the cost allocation process will be inappropriate in an expanded ISO, given that renewable resources are increasingly being procured due to their economic advantages, not just due to a policy-based need. Therefore, we continue to urge the ISO to thoroughly consider whether expanding TEAM could be a viable option for addressing regional TAC design, and allowing for consideration of the benefits associated with low cost renewable energy procurement.

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.

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.

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.

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.

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.

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.

12. 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.

13. 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.

14. 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.

AWEA and Interwest continue to support larger modifications to the TAC Draft Regional Framework Proposal, with a focus on a wholesale review of the benefits included within TEAM and enhancing those benefits to capture cost savings associated with low cost renewable resources. Nevertheless, we commend the ISO for recognizing that the relative size of public policy need should be taken into account in allocating any remaining costs of policy-driven projects to subregions, or, as the ISO has proposed to do, even more granularly to loads within each state or Local Regulatory Authority (LRA). This is an improvement over the prior TAC proposal. Despite this improvement to the TAC Draft Regional Framework Proposal, AWEA and Interwest have concerns about the viability of the current proposal for allocating policy-driven project costs.

It will be critical for the ISO to reconsider the benefit categories in TEAM to ensure benefits are appropriately captured. But, in the absence of revisions to TEAM, the ISO's TAC proposal must better reflect the fact that states without policy mandates, or without an incremental policy need that drives a transmission project, may also choose to take advantage of low cost renewable resources that can be accessed via a "policy-driven" transmission line.

With the competitive pricing offered by renewable resources in recent years, the demarcation between economics and public policy continues to blur and simply allocating costs based on state/LRA's proportionate "policy-needs" may ignore the fact that "policy-driven" transmission lines may be used to procure high-quality renewable resources on an economic basis, by entities without incremental policy needs. As described more later in these comments, AWEA and Interwest believe that changes to the CAISO's proposal are warranted to address this and to reduce fears about free-riders. At the end of these comments, AWEA and Interwest discuss the use of "reevaluation" as one possible option for reducing concerns about free-riders while also increasing the probability that the lowest cost renewable resources can be accessed to fulfill both policy and economic objectives.

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.

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.

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.

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.

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.

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.

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

As most of the TAC Draft Regional Framework Proposal has not materially changed from the previous Second Revised Straw Proposal, AWEA and Interwest have not commented on many of the specific questions within the provided stakeholder comment template. Answers to many of the questions in the stakeholder comment template can be found in prior comments in this initiative.

Despite having expressed this concern in prior comments, it is worth reiterating that, as currently designed, the cost allocation provisions for policy-driven projects that impact multiple subregions appear to be problematic. AWEA and Interwest are concerned that, the proposed policy-driven cost allocation provisions may not allow for major transmission lines that access low cost renewable resources and have been demonstrated through the CAISO's SB350 studies to have significant benefits, to move forward. Thus, many of the benefits of regionalization may not be realized.

The current cost allocation structure for policy-driven resources is problematic because it only allocates remaining costs of a policy-driven line to the load in the state/LRA which had a *policy need*. This ignores the reality that renewable resources, which had previously been considered "policy-driven," are now being procured more and more frequently on an economic basis by utilities that either do not have policy requirements or that have already exceeded their policy requirements. Therefore, allocating costs based on a *policy need* or "net short" position, could ignore a large portion of the resources that may be enabled, and ultimately procured, as a result of building a policy-driven transmission line. Under the current cost allocation provisions, states and LRAs which may be allocated costs due to their *policy need* would likely be fearful that the load in their area may bear the brunt of the costs of a major transmission line, while entities in other areas stand to benefit significantly from procuring resources using the same line without paying for the transmission-related costs.

The current TEAM construct, combined with the low cost of renewable resources leaves the potential for "free-riders" to take advantage of a policy-driven transmission line. The fear of free-riders may result in states/LRAs opting against indicating to the ISO a need for the most cost effective resources, if those resources would require significant, new transmission.

In the absence of a more comprehensive discussion and consideration of changes to TEAM to address these concerns, it may be necessary to include a provision for recalculating cost allocation for policy-driven transmission lines. A recalculation approach for policy-driven lines that impact more than one sub-region, may help to address the free-rider concern and may increase the probability that of the significant benefits associated with accessing low cost renewable resources (both to achieve policy objectives and on an economic basis) can be realized in an expanded ISO.

For instance, the CAISO could implement a provision where, if a policy-driven transmission line is built, but has a higher line rating than the nameplate capacity of the policy-resource expected to use it, cost allocation for that line could be reevaluated at a future date (perhaps relatively shortly after the transmission line achieves commercial operation). Upon reevaluation, the ISO could determine the total MW of resources that are "dependent" on the policy-driven transmission facility in question.

For example, perhaps a policy-driven line, that impacted multiple subregions, with a 2,000 MW rating was approved on the basis that "state A" had a 1,500 MW policy need which would be met by the line. A reevaluation process would allow the ISO to reevaluate, at a later date, which resources actually relied upon the transmission facility and to allocate costs if other entities had elected to procure resources that were dependent upon the transmission facility. In this example, assume that upon reevaluation, the ISO finds that 2,000 MW of resources are "dependent" upon the policy-driven line. 1,500 MW of the resources "dependent" on the line are policy-resources used to meet "state A's" policy need, just as envisioned upon the line's approval in the transmission planning process. But an additional 500 MW of resources are "dependent" on the line and are contracted to a LSE in "state B". In this situation, a reevaluation provision would allow the ISO to recalculate cost allocation allocating 75% (1500/2000) of the costs to the state A, and 25% (500/2000) to the LSE that had contracted for the 500 MW of resources dependent on the line. This would modify the cost allocation envisioned at the time the policy-driven line was approved, but would help alleviate concerns about free-riders and would better reflect the reality that transmission lines built to high quality renewable resource locations will likely be used both to meet policy objectives ***and*** fulfill economic objectives.

This reevaluation process would certainly require some nuances and additional details would need to be developed. However, this provision would help better account for the reality that many LSEs will contract with high-quality renewable resources on an economic basis, rather than due to a *policy need*. It would also alleviate concerns from states/LRAs with significant policy requirements, that other states/LRAs may free-ride on their large policy-driven transmission investments. Absent revisions to TEAM or other substantial changes to the current proposal, this reevaluation construct might help to reduce concerns about free-ridership and may increase the probability that transmission lines providing the most benefits to ratepayers can move forward in an expanded ISO.