Stakeholder Comments Template

Transmission Access Charge Options

December 6, 2016 Draft Regional Framework Proposal

Submitted by	Company	Date Submitted
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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."

   It appears that the following statement has been removed from the definition of "new facilities": "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". If this statement has truly been removed from the new facility definition then Bonneville supports this clearer and less ambiguous definition of "new facilities". If the CAISO intends to leave the above statement in the definition of "new facilities" then Bonneville does not support this definition.

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.

Bonneville believes the list of criteria in this proposal is not comprehensive enough. The CAISO does not recognize or seem to address financial impacts of integrating another area into an already existing PTO. If the new region raises the TAC rate of the PTO or sub-region then the existing/established PTO should have the right to refuse integration. The refusal by the existing PTO would cause the new area to either become its own PTO or take measures to lower its estimated TAC rate. The CAISO should not have the authority to force a PTO to integrate with another area that would cause loads under the existing PTO to pay a higher TAC rate.

The proposed criteria clearly establish that an area slated to be integrated would not have sufficient internal resources to supply its load. Therefore it would be dependent on external resources to meet its total needs. Currently, the CAISO prohibits external resources from supplying portions of RA and ancillary services, which would be an issue for the new area/PTO.

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.

Bonneville supports the use of a "license plate" rate for "only" existing facilities in each sub-region. Bonneville does not support the inclusion of costs incurred from a PTO's rights or entitlements on external transmission facilities. This could cause an external entity to pay a PTO for the cost of its own transmission system through the inclusion of these rights in the TAC if the external entity also has load in the PTO's sub-region. Historically, FERC has not allowed transmission providers to include the cost of third party transmission contracts in their own transmission rates.

In addition, the CAISO's approach to incorporating into the "license plate" rate the rights or entitlements over transmission facilities of external entities is inconsistent with how the CAISO treats transmission rights in its own balancing area. To incorporate transmission rights on external transmission lines into the "license plate" rate, the CAISO will have to rely on renewal rights provided by that external entity. To the contrary, the CAISO does not offer renewal rights on entitlements within its BA. Bonneville finds this treatment unfair to customers of an entity that chooses to join the CAISO. A reasonable compromise would be for the CAISO to maintain renewal rights inside new PTO sub-regions if those rights were offered before the entity became a PTO.

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.

Bonneville agrees that a methodology needs to be established to provide data to decision makers but does not agree that a model should be the decision maker as phrased in question 5. TEAM could likely be the model that supplies the data to the new governing body, and the governing body should then work with experts in the field before voting on a final outcome.

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.

   All entities that would be allocated costs for the economic project must agree to participate. Costs from project builds should not be forced onto other LSEs or sub-regions.

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.

   An entity that initiates a reliability project should have the right to choose to spend additional money on the identified economic project or go forward with the reliability project. TEAM or any other analysis should not be able to force an entity into taking on a more costly project as a result of perceived savings.

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.

    An entity that initiates a policy project should have the right to choose to spend additional money on the identified economic project or go forward with the policy project. TEAM or any other analysis should not be able to force an entity into taking on a more costly project as a result of perceived savings.

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.

Bonneville supports this proposal as a possible evaluation method for cost allocation, but does not support it as a means to make a final decision on cost allocation. This proposal seems to assume that all states within a multi-state sub-region will be okay with subsidizing a single state's policy project through the TAC when the policy project is built with in the same sub-region. Bonneville would like the CAISO to consider applying the cost of a policy project to the state or entity that initiates the project if that state or entity resides in a sub-region consisting of many states or entities that may not share the same policies.

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.

    Bonneville supports this proposal as a possible evaluation method for cost allocation, but does not support it as a means to make a final decision on cost allocation.

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.

    Bonneville supports this proposal as a possible evaluation method for cost allocation, but does not support it as a means to make a final decision on cost allocation.

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.

Bonneville supports this proposal as a possible evaluation method for cost allocation, but does not support it as a means to make a final decision on cost allocation.

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.

    Bonneville supports this proposal as a possible evaluation method for cost allocation, but does not support it as a means to make a final decision on cost allocation.

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.

    Building and owning a transmission line do not need to be linked as stated in this question. An entity can take bids for constructing a transmission line while still retaining ownership post construction.

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.

    Bonneville supports the approach for non-PTO entities to only be charge the sub-regional TAC rate. Bonneville doesn't support the current CAISO formula for calculating the EAC rate as described further in 19.

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.

    Bonneville understands and partially supports the idea of one EAC price for a regional ISO. Bonneville fails to understand why the CAISO refuses to acknowledge that a lower

EAC rate than the current proposal of $8.37 MWh is possible. With a lower EAC rate and properly allocated revenues (explained below in question 19), the impact of the EAC on TAC rates would decrease. The EAC having a large effect on TAC rates is something that the CAISO has stated as one of its main concerns when developing an EAC methodology. In addition, a lower EAC rate would reduce the occurrences of negative prices and help alleviate over supply situations.

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.

In section 18 of the TAC Draft Regional Framework Proposal the CAISO proposes a scenario that they feel provides rationale for keeping the previously proposed calculation for allocation of EAC revenues. In this scenario a policy driven transmission project that has the potential for EAC revenues is fully funded by two LRA's within a single sub-region. The CAISO goes on to point out how EAC revenues would trickle down on a more granular level to the LRA's within that sub-region. What the CAISO fails to point out is that under this scenario the PTO's within the current CAISO will be taking roughly 88% of the EAC revenues received from this transmission line and will have paid for none of it.

The CAISO and PTOs within the CAISO need to recognize that they currently have minimal exports. Attempting to force the belief that under an integrated ISO they would contribute to exports out of a new sub-region when those exports clearly are not occurring today is incorrect. Do the PTOs within the CAISO deserve to receive revenue comparable to what they were receiving prior to forming a regional CAISO? Probably. Do they deserve the majority share of EAC revenues? No. Especially when they are not paying for the facilities exports occur over.

Bonneville would like to reiterate its stance that the proposed revenue allocation described in the Draft Regional Framework Proposal that still transfers revenue back to PTOs in the CAISO sub-region through a TRR-weighted approach that clearly favors sub-regions with higher system costs. The new proposal avoids significant reductions to the TAC of sub-regions with high exports and lower TRRs, but does so at the cost of disproportionally allocating EAC revenue from one sub-region (in this case PacifiCorp) to the CAISO. The reduction to the CAISO sub-region's TAC rate occurs through the allocation of the EAC revenue based on the TRR-weighted approach, which transfers revenue generated from facilities in the PacifiCorp system to PTOs within the current CAISO footprint.

Bonneville does not support this approach to allocating EAC revenues because it harms the transmission customers of PTOs external to the CAISO. The TRR-weighted approach allows transmission customers internal to the CAISO to receive a greater share of the export revenue generated from PacifiCorp's system then PacifiCorp's own transmission customers. Bonneville can see no cost-causation or other basis for such a transfer. Transmission customers in PacifiCorp's system will pay for the TRR used to support the transmission facilities in the PacifiCorp sub-region, and therefore, should be the customers benefiting from the revenue generated by these exports.

At the very least, the revenue from exports should cover the cost of the facilities in the sub-region so that sub-regional TAC transmission customers can realize the benefit of these exports through a lower sub-region TAC charge. This lower TAC charge would place transmission customers in no worse, or better, position than if the EAC proposal had not been adopted and traditional wholesale transmission ratemaking allocation principles were used to reduce the sub-region's transmission charges. A proposal that requires revenue to be distributed between sub-regions with the result that a sub-region's transmission customers are worse off than under current practices is not equitable or consistent with the principle that each sub-region should bear its own costs and benefits.

This lost revenue for external sub-regions can be demonstrated through the following example:

- Assume that PacifiCorp's license-plate TAC is the TRR PacifiCorp needs to recover to maintain its transmission system. Those costs are then passed on to loads inside PacifiCorp's sub-region through that sub-region's TAC. Therefore, any usage of the PacifiCorp transmission system should incur the TAC rate (or a rate equivalent to the TAC).

- Whenever PacifiCorp recovers an amount *less than* its TAC rate on usage of its transmission system for exports, its revenue has been improperly allocated, and PacifiCorp's current transmission customers are being harmed by not receiving the full benefit of the transmission system they are supporting. The following simplified example illustrate this issue:

Sub-region 2 (PacifiCorp) Exports = 100 MW

EAC = $8.37

Sub-region 2 (PacifiCorp) TAC = $4.12 MWh

Using the current proposed EAC rate this should generate $837 in EAC revenue. Under a TRR-weighted calculation for a two sub-region scenario, sub-region 1 (CAISO) would receive roughly $734 of the EAC revenue while sub-region 2 (PacifiCorp) would only receive $103. If sub-region 2 was allowed to recover its TAC rate out of the revenue generated by the EAC, the resulting EAC revenue for sub-region 2 (PacifiCorp) should have been $412, which demonstrates that under this scenario the TRR-weighted approach has deprived ratepayers in the PacifiCorp sub-region of $309.

The revenue allocation methodology proposed in the Second Revised Straw Proposal, thus, leads to the disparate situation where only a fraction of the revenue from exports over PacifiCorp's system contributes to paying for the facilities that are actually being used. As described in the above example; for every 1 MWh of energy exported from PacifiCorp's system, only $1.03 is returning to support the costs of PacifiCorp's transmission facilities. The remaining $7.34 MWh from the EAC is distributed to other CAISO PTOs, reducing the cost of transmission facilities that provided no direct benefit to the 100 MW transaction on PacifiCorp's system. This is neither consistent with cost-causation nor equitable to the LSEs in PacifiCorp's transmission system that must make up the lost revenue by paying a higher sub-region TAC.

The misallocated revenue described in this scenario can be calculated in the below formula:

[Recovered TAC ($412) – TRR-weighted Revenue ($103)] = Misallocated Revenue ($309)

Bonneville's Proposed Alternative Allocation Methodology

Bonneville proposes a middle ground approach for allocating EAC revenue. Bonneville proposes that each sub-region be allowed to recover its TAC out of EAC revenues. This approach will ensure that EAC revenues are being equitably distributed between sub-regions while also avoiding the significant impact on regional TACs as compared to the August 11th proposal.

Sub-region 2 Exports = 100 MW

EAC = $8.37

Sub-region 2 TAC = $4.12

Again, under this scenario sub-region 2 should expect to recover its TAC rate from EAC generated revenue.

[Exports (100 MW) * Sub-region 2 TAC ($4.12)] = Sub-region 2 TAC recovery ($412)

However the total EAC revenue on 100 MW of exports is:

[Exports (100 MW) * EAC ($8.37)] = EAC revenue ($837).

This would leave $425 in surplus EAC revenue after sub-region 2 has recouped its TAC rate. The remaining amount would be placed in a Revenue Pool.

[EAC revenue ($837) – Sub-region 2 TAC recovery ($412)] = Revenue Pool ($425)

The Revenue Pool would then use the TRR-weighted approach to allocate the remaining funds across all sub-regions. In this example the CAISO sub-region would receive $373 of the Revenue Pool and PacifiCorp would receive an additional $52 on top of the revenue received through TAC recovery for a total of $464 in EAC revenue. This approach will also easily accommodate revised TAC rates once “new” regional facilities are built.

If we look at this again showing exports out of the CAISO sub-region that has a higher TAC rate than the EAC. Using 100 MW of exports the Bonneville-proposed approach would allocate all EAC revenue to the CAISO sub-region as shown below.

[Exports (100 MW) * Sub-region 1 TAC ($9.78)] = Sub-region 1 TAC recovery ($978)

[Exports (100 MW) * EAC ($8.37)] = EAC revenue ($837)

[EAC revenue ($837) – Sub-region 1 TAC recovery ($978)] = Revenue Pool (-$141) or zero (0) dollars into the Revenue Pool

While the CAISO is unable to recover its full TAC from exports out of its sub-region, it will be able to keep all revenue generated from the EAC and realize additional revenue generated from the Revenue Pool resulting from sub-regions with a TAC lower than the EAC. This proposal will lead to a more universally beneficial and equitable outcome. This proposal is also more closely aligned to the CAISO overarching principle in the TAC proposal that the TAC / EAC structure should not put existing transmission customers in a better (or worse) position in terms of transmission cost recovery.

Bonneville also requests that the CAISO consider an evaluation process for rebalancing the EAC every few years, or upon noticeable changes in system conditions. If exports out of the CAISO increase dramatically over time an unchanged EAC could start to dramatically impact TAC rates. An evaluation process would help avoid this outcome.

20. <u>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.</u>

Bonneville disagrees with this approach. Policy driven projects that do not generate EAC revenue should not get a specially allocated share of EAC revenue. The load associated with a policy project that does not generate EAC revenue should only benefit from the reduction of the sub-regions TAC like all other LSEs in the sub-region.

If the policy project **does** generate EAC revenue and is not included in the sub-regional TAC and receives no other support for TRR associated with the policy build, then all revenue received from an EAC over that project should be allocated to only the loads paying for the TRR of that project. If a policy project helps support EAC revenues through increased transmission capacity or through some other means in conjunction with an existing project, then the loads paying for the TRR would receive a portion of the EAC revenues based on contribution to energy flows or through some other measurement.

In addition any LSE's funding a transmission project, policy, reliability, or economic that is not included in a sub-regional TAC should be allowed to retain all EAC revenues.

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