

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.
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.

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 term “under review” is too open of a term for this process. Could the CAISO please define the scope of projects that could fall in the category “under review”? Does this change mean to envelop projects that have had funding committed but had not started construction?

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.”

Simplification of the existing facilities definition has the potential of leaving transmission projects in various phases open to subjective classification by the CAISO. Bonneville believes that the previous definition with some more guidelines around what classifies as committed funding would better serve this process in the future.

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.

Bonneville supports the use of a “license plate” rate for existing facilities in each sub-region.

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.

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.

Bonneville supports this approach to reliability projects.

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

Bonneville supports this approach to policy-driven projects and supports WSC oversight of proposed policy projects.

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.

Bonneville supports this approach to economic projects and supports WSC oversight of proposed economic projects.

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.

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.

Bonneville supports this approach as long as the CAISO retains that cost allocation derived from TEAM can be superseded by action of the WSC.

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.

Bonneville supports this approach as long as the CAISO retains that cost allocation derived from TEAM can be superseded by action of the WSC.

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.

Can the CAISO point to where in FERC Order No. 1000 competitive solicitation links building and owning a transmission line? If building and owning a transmission line are not directly linked in FERC Order No. 1000 then that linkage should not be included or implied in the TAC proposal.

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.

Bonneville supports these changes.

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.

Bonneville understands the difficulty behind establishing an EAC based on how the CAISO operates its system. In principle, Bonneville favors individual sub-region EACs based on each system’s TAC rate, along with the allocation of EAC revenues going to the sub-region where the exports occurred. However, Bonneville also realizes the difficulties this approach would cause the CAISO and therefore supports the CAISO’s proposal for a TAC-weighted EAC. In order to make the allocation of EAC revenues more equitable across the board, Bonneville proposes the approach outlined below.

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.

Bonneville agrees that all loads within a sub-region should pay the same price for use of that sub-region’s transmission system.

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.

At this point the CAISO has presented what presumably are the two bookends of EAC outcomes. The first, presented during the August 11, 2016 working group meeting, allocates the bulk of revenue received from the EAC to the sub-region in which the

exports leave. Using some of the numbers out of the Second Revised Straw Proposal, the following outcome demonstrates what could happen to PacifiCorp's year-two TAC if EAC revenues from 100% exports on page 18 of the Second Revised Straw Proposal, were realized based on the August 11th EAC proposal.

PacifiCorp's TRR = \$291,318,198

PacifiCorp Load (L2) = 70,675,826 MWh

PacifiCorp EAC revenues from Scenario 1 using August 11th proposal = \$273,856,572

$[\$291,318,198 \text{ (TRR year 2)} - \$273,856,572 \text{ (EAC rev year 1)}] / 70,675,826 \text{ (load year 2)}$
= \$0.24 (TAC year 2)

Bonneville acknowledges that such an allocation would appear to provide existing users of the PacifiCorp sub-region a disproportional share of benefits from the region-wide EAC. Transmission customers today do not pay \$0.24/MWh for transmission service over PacifiCorp's system, and charging such a rate prospectively would, in this scenario, appear to be inequitable because it would not properly reflect the cost of PacifiCorp's transmission system.

The Second Revised Straw Proposal

The second proposal, presented in the Second Revised Straw Proposal, 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 disproportionately 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 than 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:

$$[\text{Recovered TAC } (\$412) - \text{TRR-weighted Revenue } (\$103)] = \text{Misallocated Revenue } (\$309)$$

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.

$$\text{Sub-region 2 Exports} = 100 \text{ MW}$$

$$\text{EAC} = \$8.37$$

$$\text{Sub-region 2 TAC} = \$4.12$$

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

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

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

$$[\text{Exports } (100 \text{ MW}) * \text{EAC } (\$8.37)] = \text{EAC revenue } (\$837).$$

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.

$$[\text{EAC revenue } (\$837) - \text{Sub-region 2 TAC recovery } (\$412)] = \text{Revenue Pool } (\$425)$$

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.

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