

Stakeholder Comments Template

Transmission Access Charge Options

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

Submitted by	Company	Date Submitted
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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**.

ICNU – WIEC Comments

The Industrial Customers of Northwest Utilities (“ICNU”) and the Wyoming Industrial Energy Consumers (“WIEC”), (collectively, the “Large Customer Groups of PacifiCorp” or “LCGP”) appreciates this opportunity to comment on the California Independent System Operator’s (the “ISO”) February 10, 2016 Straw Proposal regarding Transmission Access Charge (“TAC”) Options for Integrating New Participating Transmission Owners (“PTOs”), as well as the March 9, 2016 stakeholder working group meeting regarding benefits assessment methods. ICNU is an incorporated, non-profit trade association of large electric consumers in the Pacific Northwest, with membership that includes some of PacifiCorp’s largest customers in Oregon and Washington. WIEC is an unincorporated, non-profit association whose members are large electric consumers that operate facilities within the service territory of Rocky Mountain Power, from whom they purchase electricity and energy services. Accordingly, the LCGP are interested in multiple aspects of the ISO’s considerations in the TAC and other initiatives, which could materially affect large customers of PacifiCorp and other western utilities contemplating integration into the ISO as new PTOs.

In submitting these comments on the Straw Proposal, the LCGP have not necessarily concluded that integration into the ISO of PacifiCorp or any other regional entity will be beneficial to large consumers. In order to form such a conclusion, it would be necessary to find, among other things, that: 1) joining the market will result in no harm to customers of PacifiCorp or other potential new PTO; and 2) any incremental benefits associated with the market are shared equitably between market participants.

In the Straw Proposal, the ISO clarified that a “comprehensive assessment of the costs and benefits associated with expanding the ISO BAA, or of any particular entity joining such an expanded ISO,” is outside the scope of this present TAC initiative.^{1/} Notwithstanding, the LCGP believe that it is paramount for a regional TAC framework to be designed in full consideration of the two core principles detailed above, including the impact that the new framework will have on the incremental costs and benefits to a new PTO entering the market.

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.

In general, the LCGP are supportive of using a sub-regional TAC framework. The use of such a framework is essential to ensuring that a new PTO, with lower transmission rates than the ISO, is held harmless upon joining the market. Similarly, such a framework is essential to ensure that a new PTO, with higher transmission rates than the regional ISO, does not harm

^{1/} TAC Straw Proposal at 6.

existing PTOs by joining the market. The ISO's review of precedent on this issue, and the underlying equity associated with the prevention of cost shifting among sub-regions for facilities which were originally approved and built without any expectation that their costs would be otherwise defrayed, speaks persuasively to continued recovery for existing facilities according to this methodology.

The LCGP support the proposal that “sub-regions would continue to pay the same costs for existing facilities under an expanded ISO that they would have paid if they remained separate.”^{2/} As noted in the TAC straw proposal, this “license plate” or sub-regional approach has been found reasonable by the Federal Energy Regulatory Commission (“FERC”) and at the federal appellate level because it reflects the prior investment decisions made in each individual sub-region—decisions made without any expectation that any part of such sub-regional facility costs would be defrayed by anyone one else outside the sub-region. Moreover, FERC has also approved license plate rates to avoid both rate shock and unjustified cost shifting that would result from application of a fully integrated, “postage stamp” rate for all existing facilities.^{3/}

Independent of precedent, however, the particular goals and focus of this TAC initiative also weigh in favor of a license plate rate design for future PTOs. As the ISO explains: “Through this initiative the ISO intends to develop a TAC structure that will be applicable to *any* new transmission owning utility with a load-service territory that joins the ISO.”^{4/} In other words, neither the ISO's nor any other stakeholder's consideration should be limited in focus to the effect of PacifiCorp's potential integration; in fact, “the goal of the initiative is a *broadly applicable* TAC structure, not a TAC structure tailored to the specific circumstances of PacifiCorp.”^{5/}

The ISO's treatment of existing facilities should, therefore, be designed on an equitable principle that contemplates the full array of prospective circumstances. To this end, the ISO presents a logical consideration of the equities involved:

if the new PTO places a large amount of costly high-voltage transmission under ISO operational control, the ISO's existing customers likely would be concerned about a significant increase in the regional TAC rate, whereas if the new PTO's system has relatively low high-voltage system costs and new infrastructure investment, its own existing customers would have the analogous concern.^{6/}

The LCGP support the ISO's recommendation for a license plate design because it results in a fair outcome, regardless of the circumstances relative to a particular PTO. While current ISO members may advocate for a postage stamp rate for existing facilities in specific contemplation of PacifiCorp's potential integration, LCGP agree with the ISO's assessment that those very same members “likely would be concerned about a significant increase in the regional TAC rate,” if the circumstances were reversed. But, any “broadly applicable” TAC structure cannot be rationally or fairly adopted to fit the desires of just one narrow perspective. Accordingly, the

^{2/} Id. at 4.

^{3/} Id. at 9-10.

^{4/} Id. at 6 (emphasis added).

^{5/} Id. at 6 (emphasis added).

^{6/} Id. at 5, n.3.

LCGP believe that the ISO should follow the example of PJM, MISO, SPP, and NYISO in adopting an equitable license plate rate design for all existing facilities.^{7/}

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.

The LCGP are generally supportive of defining “existing facilities” as transmission facilities that are already in service. The LCGP, however, are generally concerned with defining “existing facilities” as transmission facilities that have been approved through a separate planning process and are under development at the time a new PTO joins the ISO. For instance, the LCGP do not believe that PacifiCorp’s ongoing permitting and siting activities related to the various Energy Gateway transmission segments should necessarily qualify those facilities to be treated as an existing facility. Given the quite preliminary stage of development, it would not seem equitable to allow PacifiCorp to build those projects as an existing facility outside of the regional planning framework and outside of a competitive bidding process. Thus, the concern is that the ISO definition is too vague to determine whether the Gateway transmission segments, and any similar projects also in early developmental phases, could be built and treated as existing facilities, rather than new facilities.

In addition, this definition should be clarified to address ongoing capital expenditures with respect to existing facilities, even where the capital expenditures result in an improvement to reliability or capacity. The treatment of ongoing capital expenditures with respect to existing high-voltage facilities, whether they are to be treated as an “existing facility” or a “new facility,” seems a grey area in the ISO proposal. They do not appear to be encompassed in the definition of either a “new facility” or an “existing facility.” The LCGP recommend that these sorts of expenditures be treated as “existing facilities.” An upgrade to an existing substation in PacifiCorp’s sub-region, for example, is not well suited to be incorporated into the regional cost allocation methodology. The construction of an entirely new substation pursuant to a regional planning process, however, would be more suitable to be treated as a new facility, subject to regional cost allocation, under a future benefits assessment methodology.

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.

The LCGP are generally supportive of this proposal. Adopting this proposal, however, will have implications on many other aspects of the market design, which need to be carefully considered. Because each sub-region will be responsible for all of the TRR related to existing

^{7/} Id. at 11 & n.17.

facilities, the benefits associated with those facilities ought to flow directly to the respective sub-regions.

As an example, if a sub-regional TRR framework is to be adopted, costs and benefits of the underlying facilities would likely be better aligned under a zonal RA framework, rather than the ISO's current methodology that allocates market imports based on a load serving entity's load ratio share.

Similarly, allocation of revenues associated with losses, congestion, and other uplifts also need to be carefully evaluated within a sub-regional TRR framework. For example, because the PacifiCorp sub-region would not be paying for the existing transmission facilities in California, it should have no right to the congestion revenues resulting from transmission constraints on Path 15. Under a single, rolled-in TAC framework, the equitable allocation of congestion revenues is a simpler proposition, allowing allocation predominantly based on loads. But, under a sub-regional TAC framework, not to mention one with separate classification of existing and new facilities, the equitable allocation solution seems to be more complicated. While the LCGP do not have a solution at this time, it looks forward to further discussion and consideration of these uplift charges as the stakeholder processes continue.

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.

The LCGP are not supportive of allocating some portion of the TRR of existing facilities in a shared manner across sub-regions, for the reasons explained in #1 and #2, 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.

The LCGP are generally supportive of this approach, with some modifications. However, the LCGP are concerned that criterion (a) may result in the costs of a high-voltage project being allocated too broadly, particularly where the project is constructed to benefit a sub-region. The LCGP would be more supportive of a definition that recognizes that, pursuant to part (a), a rating of > 300 kV should not be deemed sufficient, by itself, to support regional cost allocation. Rather, part (a) should explicitly state that ongoing capital investment in existing

>300 kV facilities is not subject to regional cost allocation. The justification of this change is detailed in # 1, above.

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.

If the cost of new facilities is to be allocated on a regional basis, the LCGP generally support allocating costs between sub-region in proportion to benefits recognized as a result of the new facilities, provided that the total benefits are demonstrated to exceed the cost.

Beyond this generally stated principle, the LCGP agree with prior comments from the Washington Utilities and Transportation Commission ("WUTC"), which emphasize the need for transparency in a future benefits assessment methodology.^{8/} Indeed, as the ISO points out, transparency in the process for determining benefits and beneficiaries is one of six cost allocation principles for new transmission projects articulated by FERC in Order No. 1000.^{9/} Likewise, LCGP understand PacifiCorp as holding a complementary view in supporting "a methodology for all project types that *clearly defines* cost allocation between the TAC sub-regions."^{10/}

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.

The LCGP do not yet have a position on this proposal. Notwithstanding, this methodology could be problematic to the extent that it would make it cost prohibitive for a new PTO to join the market.

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.

^{8/} WUTC Comments at 3 (Dec. 4, 2015)

^{9/} TAC Straw Proposal at 8-9.

^{10/} PacifiCorp Regional ISO Monthly Stakeholder Call, March 10, 2016 ("March 10th Call"), at 6 (emphasis added).

While the LCGP are not necessarily opposed to the notion of recalculating the benefit shares pursuant to the entrance of a new PTO into the expanded BAA, the LCGP do not believe that the benefit share should be a dynamic calculation, subject to change depending on changes in the network topology. The LCGP deem it too difficult to predict how future changes in network topology will impact the allocation of benefits from a project when it is being planned and evaluated.

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).

The LCGP recommend that a new PTO be given flexibility in the cost allocation of TRR within the respective sub-region. Rather than requiring the new PTO to adopt a volumetric TAC assigned on a \$/MWh basis, the new PTO should be allowed to keep its existing methodologies for cost allocation among states and customer classes within the sub-region.

PacifiCorp, for example, currently allocates TRR between its various state jurisdictions primarily using a System Generation (“SG”) allocation factor. The SG allocation factor is a 75/25 blend between demand (calculated as 12CP) and energy. This allocation factor has been the subject of lengthy negotiations between the states, as a part of PacifiCorp’s Multi-State Process (“MSP”). The MSP is a regional forum to establish cost allocation methodologies for PacifiCorp, which has been in on-and-off negotiations since the early 2000s. All states, with the exception of Washington, have recently negotiated a new agreement governing cost allocation, the “2017 Protocol,” which would govern cost allocation between PacifiCorp states, if approved by state regulatory commissions, potentially through 2019. The 2017 Protocol continued the use of the SG factor for the majority of PacifiCorp’s TRR.

Movement from an SG factor to a \$/MWh volumetric factor to allocate TRR for PacifiCorp has the potential to result in dramatic cost shifts between the states *and* between customers in those states. The LCGP have not identified any practical reason why a new PTO sub-region should not be able to retain existing cost allocation methodologies within the sub-region. Thus, the LCGP believe that, in order to hold potential new PTO customers harmless, states within a new PTO’s sub-region must retain full authority to determine how the TRR will be allocated among the states and customer classes within the respective sub-regions.

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.

The LCGP are generally unsupportive of the application of a different benefits assessment for projects characterized as reliability versus economic projects. The LCGP do, however, propose that, for regional allocation purposes, the cost of transmission projects built for

public policy reasons are better allocated on a situs basis, in a manner different than other projects, based on which state policy is driving the project in question.

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.

See #6, above.

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.

As the LCGP understand, the DFAX method relies on the assumption that reliability benefits resulting from incremental transmission investment are received in direct proportion to incremental power flows between two sub-regions, calculated in a production cost model. This is not necessarily an unreasonable assumption; the incremental power flows, however, may not be the best indication of which sub-region is recognizing the reliability benefits associated with a transmission project. On the contrary, the LCGP generally believe that energy savings, modeled using an approach similar to the TEAM methodology, would be a better, or at least a comparable, indication of which region is recognizing reliability benefits of a project. For this reason, the LCGP also support the use of a single modeling methodology to calculate benefits associated with both reliability and economic projects.

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.

The LCGP are more supportive of using a framework similar to the TEAM methodology to allocate both economic and reliability projects. While the LCGP are concerned that the methodology could overstate capacity benefits from a new transmission project, the general framework of the TEAM methodology seems to be more reasonable than other methodologies, such as the DFAX methodology, and also seems to be fairly consistent with the methodology employed by the MISO. If it is to be used, there are many aspects of the methodology that would need to be further developed and refined.

With respect to the energy benefit component of the calculation, the use of a production cost model to evaluate incremental energy savings resulting from new transmission facilities is a better way to evaluate economic benefits, especially in comparison to “the highly complex” methodology employed by PJM.^{11/} Further, while LCGP may provide more detailed analysis in future comments focusing on benefits assessment methodology, a MISO-like approach would properly allocate benefits by sub-region—an especially relevant factor when considering geographical isolation issues and transmission constraints between the existing ISO and the Pacific Northwest, where PacifiCorp and many other prospective new PTOs would be interconnected.

In addition, the objective of the modeling is best served to quantify the total economic impact to *customers* associated with the new transmission facility. Accordingly, all of the ISO charges and costs ought to be reflected in the modeling, including losses and congestion revenues. If, for example, a project is constructed that diminishes the congestion revenues received by a particular sub-region (assuming a zonal system for congestion revenues), the resultant reduction in revenues ought to be reflected in the benefits calculation.

As noted by the ISO,^{12/} local and system capacity benefits are proposed to be reflected in the TEAM methodology. With respect to these capacity benefits, the LCGP are concerned about the potential to overstate the capacity value of new transmission facilities. Increasing transmission capacity does not result in any new generation capacity being built. It just allows for existing generation—that was previously subject to a transmission constraint—to be used more broadly throughout the system. Thus, the capacity benefits associated with transmission projects can often be illusory and difficult to quantify.

Finally, as discussed in ICNU’s comments on the ISO’s RA straw proposal, the ISO does not currently have a rigorous methodology to determine import capacity from neighboring balancing areas; instead, the ISO relies on historical data. Absent an improved, rigorous methodology, it may be impractical to evaluate the benefits of a transmission facility that results in increased import capability.

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.

The LCGP are also concerned about the inclusion of “other” benefits in the TEAM method that might not be revealed through a production cost model. Absent a clear understanding of what these other benefits might be, there is a concern that any number of different soft or qualitative benefits might be incorporated into these studies in an attempt to impact the resultant cost allocation. To the extent it is further pursued, the LCGP recommend

^{11/} TAC Straw Proposal at 11-12. The highly litigious history surrounding PJM’s methodology also weighs against the adoption of a similarly complex design for the ISO.

^{12/} TAC Options, Benefits Assessment Methods, Stakeholder Working Group at 6 (Mar. 9, 2016).

that the TEAM methodology focus on quantifiable economic benefits in evaluating cost allocation, rather than leaving the door open to types of benefits which are more speculative and difficult to quantify.

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.

The LCGP generally do not agree with the ISO's statement. There should be a presumption that, absent agreement of another state to share in the costs of a public policy project or other extraordinary circumstance, 100% of the cost of a public policy project should be situs assigned to the state whose policy was the driver of the project. Public policy projects, by their very nature, are the product of the individualized policy concerns of a specific state. While a state should have autonomy to set their own policies and develop their own policy projects, one state should not be able to impose its own policy goals and projects on another state that may disagree or be harmed by those policy goals. Put another way: just as the expanded ISO's governance structure should not enable one state to unilaterally impose its policies on another, the expanded ISO's cost-sharing mechanisms should not enable one state to impose its policies on another. Therefore, there should be a presumption against the sharing of public policy project costs, absent agreement to share costs or other extraordinary circumstance.

While the issues related to cost allocation of policy driven investment may be relatively new to the ISO, PacifiCorp stakeholders have, through the MSP process, been evaluating the allocation of costs associated with state-specific policies for some time. For allocation purposes, the states have generally agreed that the costs and the benefits of a project built as a result of a state-specific policy should be situs assigned to the state whose policy resulted in the project. Thus, the state implementing the policy pays the cost, but the other states do not receive the benefits associated with the project, which are effectively allocated from the other states to the state whose policy drove the project. Applied to public policy projects within a regional ISO, the framework adopted by the PacifiCorp states would assign 100% of the costs of the project to the state that is driving the project.

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.

The LCGP are generally supportive of using a single methodology for new transmission facilities that are characterized as either economic or reliability projects, but not for public policy projects as discussed in #15. As discussed in #12, above, an avoided cost methodology similar

to the TEAM method could be fairly applied to reliability projects, in addition to economic projects. The rationale is that the relative economic benefits received by a sub-region in connection with new transmission facilities are not an unreasonable indication of the relative reliability benefit received by that sub-region. This is in contrast to the power flows used in DFAX modeling methodology, which the LCGP do not believe are necessarily a better indication of which sub-region is recognizing reliability benefits.

Notwithstanding, the LCGP reiterate an opposition to a broad range of qualitative benefits being incorporated into the benefits assessment as an “other benefit.” The TEAM methodology is best suited to focus on quantifiable benefits, which can be modeled in a power cost simulation.

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 LCGP have not yet performed a thorough evaluation of the BAMx proposal, though the methodology appears to have some merit, and the LCGP are open to further exploration of this proposal.

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

As noted, the LCGP’s willingness to explore TEAM methodology is partly based on the apparent similarity to the MISO’s approach and is subject to a thorough evaluation of all of the assumptions and algorithms used by the model. In this regard, and notwithstanding a general preference for applying the same methodology to both economic and reliability projects, the LCGP could potentially support the use of methodology similar to that employed by the MISO. Such an approach not only seems highly transparent and accessible to broad understanding, but the MISO methodology also “clearly defines” allocation parameters between sub-regions, in keeping with the recommendation of PacifiCorp as the first potential PTO to integrate.