

# 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](mailto: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.

#### **Comments on the Draft Regional Framework Proposal**

The Industrial Customers of Northwest Utilities ("ICNU") appreciates this opportunity to provide feedback on the California Independent System Operator's (the "ISO") Transmission Access Charge Options ("TAC") Draft Regional Framework Proposal ("Framework Proposal"). As noted in prior comments, ICNU has not necessarily concluded that integration into the ISO of PacifiCorp or any other particular entity will be beneficial to large power 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 large customers of PacifiCorp or other potential new Participating Transmission Owners ("PTOs"); and 2) any incremental benefits associated with the market are shared equitably between market participants.

On all highlighted items which the ISO represents as unchanged from the prior TAC proposal, ICNU maintains the positions stated in prior comment submissions. According, such fields are left blank below.

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.

The most important aspect of this element of the proposal, from ICNU’s perspective, is the decision-making process to determine whether a new PTO ought to be treated as a new sub-region or as part of an existing sub-region. More specifically, the crucial element is *who* ultimately would be responsible for making the determination. As ICNU has commented, the Western States Committee (“WSC”) would seem the appropriate entity to make such a determination, including the potential consideration of a “rate impact” cap to limit any adverse effects to an existing PTO and individual states due to integration.<sup>1/</sup>

The continued omission of any express role for the WSC in this element of the ISO’s proposal is concerning. Determination solely by a regional ISO Board of Governors, at the behest of ISO staff, appears to offer no guarantee of input from the individual state interests which the WSC would represent—indeed, ensuring proper consideration of unique state interests is the very reason the WSC would exist, under the ISO’s own proposal.<sup>2/</sup> Moreover, the TAC

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<sup>1/</sup> See, e.g., ICNU Comments on Second Revised TAC Straw Proposal at 2; ICNU Comments on Revised TAC Straw Proposal at 2.

<sup>2/</sup> See WSC Paper and Draft Proposal at 5 (explaining that the ISO expressly envisions that the WSC will exert primary authority on issues in order to, among other things, ensure that regional ISO processes are “responsive to the unique policy interests of each state”). ICNU recognizes that the ISO envisions working

Framework Proposal is expressly designed “to inform the ongoing discussions regarding CAISO governance modifications.”<sup>3/</sup> Thus, given that the creation of a WSC is a central component of the ISO’s own regional governance proposals,<sup>4/</sup> ICNU believes that an explicit consideration of a WSC role within this element of the proposal is needed to inform ongoing governance discussions, whether those discussions are to continue before the CEC or in any other forum.

As to the additional details proposed by the ISO on how “integrated” determinations would be made, ICNU has nothing to add at this time. As the ISO appropriately recognizes, the critical feature to any determination will not be “formulaic terms” or any “precise definition” used in model criteria, but analysis “on a case-by-case basis.”<sup>5/</sup>

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.
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.

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with “other stakeholders” before making a recommendation to the regional ISO Board on integration determinations. Framework Proposal at 10. Without a formal role for the WSC, however, ICNU is concerned that an indefinite proposal to merely work with “other stakeholders” may be insufficient to ensure state interests are properly considered. For further discussion on the role of the WSC, please see ICNU’s comments responsive to # 21, below.

<sup>3/</sup> Framework Proposal at 3.

<sup>4/</sup> See California Energy Commission (“CEC”) Docket No. 16-RGO-01, 2<sup>nd</sup> Revised Governance Proposal at 10-13. See generally CEC Docket No. 16-RGO-01, Discussion Paper and Draft Proposal on Potential Topics within the Primary Authority of the Western States Committee.

<sup>5/</sup> Framework Proposal at 10.

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.

While the ISO did not highlight this item, thereby indicating an element of the proposal which has changed, ICNU is uncertain as to how this item materially deviates from the ISO's last proposal. Rather, ICNU understands this element of the proposal to follow the "driver first" approach to cost allocation, which ICNU continues to support.<sup>6/</sup>

That said, ICNU believes that the WSC should have authority to override any default principle governing project cost allocation.<sup>7/</sup> As a threshold matter, ICNU maintains concerns that default allocation principles could restrict both the future authority of the WSC, as well as any state's ability to achieve reasonable outcomes in the WSC. Thus, ICNU continues to believe that the WSC may be a more appropriate forum for the establishment of default allocation principles, if they must be developed at all.<sup>8/</sup>

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.

ICNU appreciates the ISO's more granular approach to cost allocation involving policy-driven projects. Subject to ICNU's concerns over default allocation principles established outside the WSC, ICNU would likely support a proposal to allocate costs only to the load of regulatory authorities driving policy need, in circumstances in which a project is built in a

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<sup>6/</sup> See, e.g., ICNU Comments on Second Revised TAC Straw Proposal at 8; ICNU Comments on August 11 TAC Working Group at 4.

<sup>7/</sup> ICNU Comments on Second Revised TAC Straw Proposal at 7.

<sup>8/</sup> Id. at 5.

different sub-region. This further application of the “driver first” approach seems appropriate for reasons explained in prior ICNU comments.<sup>9/</sup>

However, ICNU does not support, at least on an unqualified basis, the alternative component of the ISO’s proposal, in which benefits would be attributed uniformly throughout a sub-region, regardless of whether one or more states or LRAs support or oppose a policy-driven project. As ICNU explained in prior comments, a wide range of facts and circumstances may apply to a future transmission project, including a scenario in which an entire sub-region could be allocated the entire costs of a fairly minor “need” within that particular sub-region, based on a driver originating from only a single state.<sup>10/</sup> By adopting a default allocation principle that rejects granular analysis within a sub-region, the resultant one-size-fits-all methodology would almost certainly be unfair in certain circumstances. To avoid such an outcome, ICNU maintains that WSC oversight will allow for consideration of any unique circumstances in which rote application of a seemingly reasonable approach may lead to unfair results.<sup>11/</sup>

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.

ICNU is uncertain how this item adds any new information to the principles contained within the prior two items. Accordingly, ICNU simply refers the ISO and any interested stakeholders to the comments responsive to # 10 and # 11, above.

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.

This proposal seems reasonable in concept, although ICNU believes that actual determinations—of how to fairly allocate costs in proportion to each state’s need—may prove difficult and controversial in practice. In light of the focus upon individual state loads and needs, the WSC would appear to be the best forum to make such determinations.

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-

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<sup>9/</sup> Id. at 9-10.

<sup>10/</sup> Id. at 5-6.

<sup>11/</sup> Id. at 6.

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.

ICNU does not support this proposal, which may in some aspects contradict or be in tension with the proposals in # 10 and # 11, above.<sup>12/</sup> Specifically, this proposal seems to suggest a “total benefits” approach to policy-driven projects, rather than the “driver first” approach that apparently underlies the proposals in # 10 and # 11. To be clear, ICNU strongly supports a “driver first” approach, to the extent that default allocation methodologies are established, with any economic benefit considerations being factored only *after* all avoided costs are first fully allocated to the state(s) or sub-region(s) driving a project.<sup>13/</sup> Moreover, ICNU would support highly granular analyses in all such circumstances, to avoid scenarios in which individual states or sub-regions are unfairly allocated costs for projects driven by other sub-regions or states, as explained in comments responsive to # 11, above.

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.

ICNU understands this proposal to be an application of the “driver first” approach, albeit with prioritization of federal drivers over state or LRA drivers. While ICNU does not necessarily oppose such a methodology, the WSC may be the appropriate forum for consideration under such circumstances, especially as the appropriate weighting or importance of federal versus state/LRA policy mandates may not always be identical in every instance. Also, as noted in comments responsive to # 13, the WSC may be best positioned to determine the practically challenging and potentially controversial allocations between states and sub-regions.

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-

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<sup>12/</sup> For example, a policy-driven project “built in one sub-region to meet the policy mandates of another sub-region,” as contemplated here, would seem to encompass the circumstances addressed in # 11, in which “a project that meets policy needs is built within a different sub-region from the state or local regulatory authorities driving the policy need.” Yet, the two proposals appear to dictate different allocation approaches under the same factual circumstances.

<sup>13/</sup> See, e.g., ICNU Comments on Second Revised TAC Straw Proposal at 8; ICNU Comments on August 11 TAC Working Group at 4 n.8.

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.

ICNU appreciates the ISO's proposal to break down EAC revenues on a sub-regional basis. Nevertheless, as ICNU stated in prior comments, a single, region-wide EAC presents numerous concerns that may result in harm to ratepayers outside California.<sup>14/</sup> Therefore, ICNU continues to hold significant reservations on the ISO's overall EAC construct, notwithstanding the granularity of this element of the proposal.

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

Regarding the multiple recommendations for explicit reference to the WSC in these comments, ICNU understands the ISO's position that "[r]esolution of WSC roles and functions will be determined as part of the governance initiative, not within this TAC Options initiative."<sup>15/</sup> As an initial matter, ICNU disagrees with this "siloe" (i.e., independently parallel) approach to regionalization efforts, which practically ignores vital stakeholder concerns, such as the need for WSC oversight, by narrowly focusing only on technical aspects of operational concerns in isolation, such as the various TAC proposals within this initiative.

Beyond just the efficiencies that would result from a more holistic and integrated analysis, the ISO's insistence upon a siloe regionalization approach also creates serious legal concerns. Namely, the ISO expressly states an intention to use "the transmission cost allocation provisions described" within the Framework Proposal "for inclusion in the FERC-approved tariff

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<sup>14/</sup> ICNU Comments on Second Revised TAC Straw Proposal at 11.

<sup>15/</sup> Framework Proposal at 7.

for the expanded BAA.”<sup>16/</sup> Although the ISO envisions doing so “following resolution of the governance initiative,”<sup>17/</sup> if the TAC Framework Proposal and governance initiative remain siloed and distinct, then the new tariff applicable to a regional ISO would presumably not incorporate the fundamental protections of a WSC or any other governing principles that the ISO or stakeholders have developed.

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<sup>16/</sup> Id.

<sup>17/</sup> Id.