

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**.

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.

ITC's experience is that sub-regions can facilitate the expansion of a planning region, such as when Entergy joined MISO, as a way of dealing with transitional cost allocation issues among new members and legacy members. However, it is also our experience that persistence of sub-regions can become an impediment to regional transmission expansion

and should be phased out fairly promptly. We encourage the CAISO to establish a short time-frame, 5 years or less, for the duration of the sub-regions to ensure planning and other activities are not bifurcated for long periods. This definition of sub-region becomes unwieldy when applied to cost allocation for new facilities (as described in our response to Question 5). A potential resolution is a more granular definition of sub-region when applied to new facilities (each PTO in the legacy CAISO BAA would itself be defined as a sub-region).

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.

ITC recommends that the CAISO identify a “bright line” date for new facilities for which a new PTO would bear cost responsibility, similar to how MISO and SPP have treated their expansions. The cost of legacy facilities and post-integration facilities should be separated for purposes of cost allocation. While the CAISO is not inclined in this direction given comments made in its presentations, it should be noted that facilities approved after this “bright line” date could provide benefits to the new PTO. Charging new PTOs for facilities approved before the date they join would be inappropriate because they did not participate in the planning for those facilities. Similarly, new PTOs should not expect existing CAISO PTOs to share in the cost of projects which the new PTO had planned prior to joining the CAISO. As noted by the CAISO on pages 9 and 10 of the Straw Proposal, a license plate rate design for the costs of existing transmission facilities is consistent with Commission precedent and prevents unjustified cost shifts associated with the expansion of ISOs or RTOs.

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.

Allocating the TRR of each sub-region’s existing facilities to the respective sub-region is in keeping with the CAISO’s current practice and that of other regions, such as MISO.

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.

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.

While the definition of sub-region provided in the Straw Proposal is useful when allocating the cost of legacy transmission facilities, the definition is troublesome (as noted in response to question 1) when allocating the costs of new regional facilities. As provided in the Straw Proposal, the current CAISO system will itself become a sub-region. While the cost of a facility above 200 kV is currently allocated to the entire CAISO region using a postage stamp methodology, under the Straw Proposal there is a subset of these projects that would no longer receive regional cost allocation. Facilities above 200 kV but below 300 kV must now either increase interchange capacity between sub-regions (between classic CAISO and a new PTO, or between new PTOs) or increase intertie capacity between the expanded BAA and an adjacent BAA. In this way, the Straw Proposal adds additional conditions to a facility’s eligibility for regional cost allocation and is a step in the wrong direction.

Rather than increase the voltage threshold by which a facility becomes eligible for cost allocation, the CAISO should recognize voltage as a useful indicator of the general spread of benefits: as voltages increase the benefits are typically more dispersed. And as benefits spread more widely, so should the cost allocation. Thus, voltages themselves should not be used in a binary way to determine whether costs are allocated but treated as more of a sliding scale of how far the benefits and costs extend. Likewise, sub-regions’ cost shares should be based on their benefit from a new transmission project – the cost share should be roughly commensurate with their amount of benefits. Facility voltage should be used to inform how, but not whether, costs are allocated. The Highway/Byway cost allocation employed by SPP appropriately recognizes that higher voltage facilities have a wider dispersion of benefits by allocating a larger portion of the facility’s cost using a postage stamp methodology as voltage increases (the cost of higher voltage Highway facilities is spread solely on a postage stamp basis while the cost of lower voltage Byway facilities is spread using a combination of postage stamp and license plate methodologies). There is nothing magical about the voltage demarcation between Highway and Byway facilities. If the CAISO were to employ a similar approach, it could use the proposed 300 kV threshold to demarcate the facilities for which costs are allocated solely on a postage stamp basis and those facilities for which costs are allocated using a combination of postage stamp and license plate methods. ITC’s concern is that the CAISO’s current cost allocation methodology acknowledges the regional benefits of facilities greater than 200 kV, and ITC suspects that facilities between 200 kV and 300 kV will continue to provide some degree of regional benefit even as the regional footprint changes upon integration of new PTOs.

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.

As noted in our response to question 5, sub-regions' cost shares should be roughly commensurate with their benefit from a new transmission project. Stakeholder comments in Section 2 of this template will indicate the general agreement regarding whether the benefit measures provided by the CAISO are sufficient to enable cost allocation consistent with this principle. In general, if a methodology other than postage stamp or simple load-ratio share is used, ITC believes the methodology should broadly account for the benefits provided by a transmission facility. Otherwise, when a facility's benefits are considered only limitedly, the cost allocation is skewed toward the sub-region receiving the narrow benefit type computed in the analysis.

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.

Consistent with our response to Question 2, the cost of legacy facilities and post-integration facilities should be separated for purposes of cost allocation. This separation is appropriate for the first PTO that joins and for any subsequent PTOs. Charging new PTOs for facilities approved before the date they join would be inappropriate because they did participate in the planning process resulting in construction of the facilities.

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.

While an annual recalculation of costs and benefits appears to be reasonable, the actual practice could be contentious and actually create the problems the CAISO appears to want to avoid. In MISO, costs and benefits of projects are not recalculated for allocation purposes. Our experience with SPP is that the after-the-fact evaluation of the spread of benefits can distort the planning process and is not necessarily an easy and straightforward calculation. The intention of the SPP process is to take a retrospective view on whether all parties are receiving benefits roughly commensurate (defined as a 0.8 B/C) with their costs and provide "remedies" if any party is being "harmed". Changing the cost allocation is not necessarily the intent of the back-cast.

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).

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 straw proposal would place projects into one of three distinct buckets: reliability, economic, or public policy. Project benefits viewed from the bucket approach are measured in limited ways (for example, some regions utilize adjusted production cost for economic benefits, avoided project cost for public policy and reliability benefits). However, it is our experience that a single project may have multiple benefits and restricting measurement of benefits to benefits of a particular type will not account for the multi-dimensional benefits transmission projects can provide. All relevant benefits should be considered and measured.

Viable metrics for project evaluation should include, but not be limited to, avoided reliability and public policy project cost; adjusted production cost savings; reduced market-to-market payments; reduced congestion cost, avoided reliability and public policy project cost; and reductions in capacity costs due to reduced losses and increased deliverability, and the resulting ability to lower planning reserve margins. Further, it is important to note that these metrics should be additive. If there is some duplication of benefits calculated between two metrics, then it would be necessary to remove the redundancy but concerns about duplication should not constrain the decision to evaluate a comprehensive range of benefits.

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.

During the Working Group meeting on March 9, the ISO suggested it is willing to consider a simpler method of cost allocation such as the Highway/Byway approach employed by SPP, given sufficient stakeholder support. In general, there is no reason to complicate cost allocation, provided costs under a simpler method are allocated in a manner reasonably commensurate with benefits. As described in our response to Question 10, an allocation of costs using a rigorous benefits computation requires benefits of multiple types to be considered on an additive basis so that the resulting cost allocation truly reflects the diverse benefits a facility may provide. Considering benefits of only one type, or considering benefits in an incomplete way, is not necessarily an improvement over simpler allocation methods.

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.

DFAX has its limitations for anything other than reliability projects and the methodology has limitations for reliability projects driven by other than flow-based (thermal) violations. We have also observed that the methodology for the PJM region produces unjust and unreasonable results in certain cases, due to the *de minimus* threshold and failure to consider a load zone's counterflow impacts.

Presently, the DFAX methodology in PJM measures usage of a transmission facility based on power flows on that facility at zonal peak, even if the studied project is not being built to address peak reliability issues, such as projects built to address system stability, storm hardening, or other non-flow-based issues. Moreover, this approach to measuring load also inappropriately ignores how the facility will be used at system peak. In particular, power may be flowing in the opposite direction, thereby lessening the impact on the certain zones.

Improper cost allocations predicated on the use of peak load are then further exacerbated through PJM's post-study exceptions: in particular, the *de minimis* exception, wherein no costs are allocated to zones with a DFAX value less than 1 percent (i.e., where the customer's MW usage of the transmission facility is less than one percent of the customer's total load).

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 CAISO should conduct a comprehensive review of benefit metrics. Other metrics could consider marginal energy losses, reduced capacity costs due to reduction of on-peak losses, increased wheeling through-and-out revenues, assumed benefit of mandated reliability projects, and mitigation of transmission outage costs. This approach is a reasonable starting point but these metrics should be additive. If there is some duplication of benefits calculated between two metrics, then it would be necessary to remove the redundancy but concerns about duplication should not constrain the decision to evaluate a comprehensive range of benefits.

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 foundation of cost allocation is the concept that payment responsibility should be aligned with benefits. For this alignment to occur in practice, planning regions must measure benefits in a broad way. Typically, when regions measure economic benefits, they overlook other types of benefits (reliability, public policy). This has two negative effects: an artificially low measure of benefits that may prevent a beneficial project from meeting the relevant benefit/cost thresholds for selection in the regional transmission plan, and cost allocation that is unfairly weighted toward those who receive economic benefits and away from those receiving reliability and/or public policy benefits. All types of benefits, regardless of type, should be considered simultaneously when evaluating the total benefit of a facility (and when allocating the costs of a facility commensurate with its benefits).

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 CAISO should ensure that the costs of all projects are evaluated on the same basis – commensurate with the distribution of benefits. If this benefits approach is used, it will not matter which state's policy was the initial driver. However, if this benefits analysis is not carefully performed, the CAISO runs the risk of one state's consumers paying for project costs when they did not receive equivalent benefits.

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.

While the TEAM approach is a good beginning, ITC agrees that additional benefits must be included in order to ensure all of the benefits are captured and that these benefits are additive.

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.

ITC is supportive of the general concept of the BAMx proposal that entities using the public project should pay for it.

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