Stakeholder Comments Template

Transmission Access Charge Options

May 20, 2016 Revised Straw Proposal

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the May 20, 2016 revised straw proposal. The 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 **June 10, 2016.**

Revised Straw Proposal

1. In the previous straw proposal the ISO proposed to define sub-regions, with the current ISO footprint as one sub-region and each PTO that subsequently joins as another sub-region. Now the ISO is proposing an exception 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. Please comment on whether such an embedded/integrated new PTO should become a new sub-region, be given a one-time choice, or whether another approach would be preferable.

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2. The proposal defines "existing facilities" as transmission assets in-service or planned in the entity's own planning process for its own service area or planning region, and that have either begun construction or have committed funding. The ISO proposed criteria for what constitutes a facility having "begun construction" and "committed funding" and for how these criteria would be demonstrated. Please comment on these criteria and their use for this purpose.

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3. The proposal defines "new facilities" as transmission projects planned and approved in an expanded TPP for the expanded BAA. Projects that are under review as potential "inter-regional" projects prior to the new PTO joining may be considered as "new" as long as the "existing" criteria are not met. Please comment on the potential inclusion of candidate inter-regional projects in the new facilities category.

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4. Consistent with the previous straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional "license plate" TAC rates. The ISO's decision to retain the previous proposal, rather than develop a new proposal for allocating some costs of existing facilities across the sub-regions, was based on the importance of retaining the principle that only new facilities planned through the expanded TPP should be eligible for region-wide cost allocation. Please comment on the license plate approach and the logic for retaining that approach, as explained here and in the revised straw proposal.

   In comments submitted November 20, 2015, ITC argued that it is appropriate to separate existing facilities from new facilities for the purpose of cost allocation. Allocating the cost of existing facilities on a "license plate" basis is appropriate because it is consistent with how the costs of existing facilities are allocated in the current BAA.

5. "New facilities" will undergo a two-step process to determine eligibility for regional cost allocation. First, the project must be planned and approved through the integrated TPP for the expanded BAA. Second, the project must meet at least one of three criteria to be a "new regional facility" eligible for region-wide cost allocation. Please comment on the two-step process to determine "new facilities."

   The two-step process for determining whether a facility is a "new facility" eligible for cost allocation among the new sub-regions is reasonable overall. It is appropriate to restrict eligibility to projects planned and approved through the integrated TPP for the expanded BAA, and the three criteria set forth are reasonable. However, as described below, the CAISO should not foreclose the possibility of cost allocation for reliability projects that would otherwise qualify under the two-step process.

6. The proposal would allocate the cost of new reliability projects approved solely to meet an identified reliability need within a sub-region entirely to that sub-region. Please comment on the proposed cost allocation for new reliability projects.

The straw proposal excludes reliability projects from regional cost allocation. CAISO should not foreclose the possibility that a reliability project may provide benefits to more than one sub-region (and more than one PTO). The CAISO should consider tests to determine whether the benefits from a reliability project are more diffuse. A reliability project that otherwise satisfies the two-step process for a “new facility” should be eligible for cost allocation, with costs allocated commensurate with the measured benefits the project provides.

Additional clarification is needed on when a project needed for reliability is subject to competitive solicitation under the ISO’s revised straw proposal. As described in the revised straw proposal, the cost of an identified reliability need within a sub-region will be included in the license plate sub-regional rate. With respect to the existing ISO footprint that will become a sub-region under the proposal, the license plate rate design means that the cost of a project identified to meet a reliability need in that sub-region will be allocated among multiple PTOs. Question 8 below, as well as certain statements in the straw proposal, suggest that new projects will be subject to competitive solicitation if the costs of the project are paid for by the ratepayers of more than one PTO in a sub-region (which would be the case for reliability projects in the existing ISO footprint). However, this interpretation seems inconsistent with other language in the straw proposal and June 1 presentation.

7. <u>The ISO proposes that a body of state regulators, to be established as part of the new regional governance structure, would make decisions to build and decide allocation of costs for new economic and policy-driven facilities. Please comment on this proposal.</u>

Granting state regulators the authority to decide whether to build new economic and policy-driven facilities and decide allocation of costs for these facilities runs contrary to Order 1000. Cost allocation methods must be transparent and determined *ex ante*. Deferring cost allocation decisions until facilities have already been identified and delegating to a body of state regulators the decision of whether to cost allocate creates the very uncertainty in the planning process Order 1000 intended to address.

When justifying the need for cost allocation reform in Order 1000, the Commission reflected on Order 890 and said that “knowing how the costs of transmission facilities would be allocated is critical to the development of new infrastructure because transmission providers and customers cannot be expected to support the construction of new transmission unless they understand who will pay the associated costs” (P 496).

The Commission goes on to acknowledge that cost allocation is contentious and prone to litigation, and states that “the lack of clear *ex ante* cost allocation methods that identify beneficiaries of proposed regional and interregional transmission facilities may be impairing the ability of public utility transmission providers to implement more efficient or cost-effective transmission solutions identified by the transmission planning process”

(P 499).

Each RTO and ISO has developed as part of their Order 1000 compliance plans cost allocation methods that objectively allocate the cost of facilities. The CAISO's plan is a step backward in that it reintroduces the potential for contention regarding cost allocation, which in turn can prevent the construction of beneficial transmission facilities. While it may be difficult to obtain stakeholder agreement on *ex ante* cost allocation methods for an expanded BAA, it will likely be even more difficult to obtain state regulators' agreement on cost allocation once a project has been identified for potential inclusion in the TPP. Instead, the appropriate time for state regulators' input on cost allocation is now—as part of the broader stakeholder process to develop cost allocation methods consistent with the Commission's six cost allocation principles. ITC owns and operates transmission in the MISO and SPP regions. Regulators in each region coordinate their activities through region-specific organizations: the Organization of MISO States (OMS) and the SPP Regional State Committee (RSC), respectively. Such coordination allows state regulators a strong voice in the stakeholder process and can reduce conflict among stakeholders. The CAISO should consider as part of the broader regional integration initiative the role of state regulators in the stakeholder process.

During the TAC meeting on June 1, the CAISO discussed the role played by state regulators in the approval of MISO's Multi-Value Project portfolio. It is worth noting that some state regulators appealed the FERC decision approving the cost allocation for these projects, which speaks to the contention that can arise and the need to settle these issues up front, to the extent possible. Further, the MVP portfolio was approved in 2011, prior to the promulgation of Order 1000. Any subsequent MVP portfolio is subject to the cost allocation methods set forth in the MISO Tariff. Similar to other regions, and consistent with its current cost allocation practices, the CAISO should establish for an expanded BAA on an *ex ante* basis the criteria and methods for cost allocation.

8. <u>Competitive solicitation to select the entity to build and own a new transmission project would apply to: (a) economic and policy-driven transmission projects approved by the body of state regulators for regional cost allocation, and (b) new projects whose costs are allocated entirely to one sub-region but are paid for by the ratepayers of more than one PTO within that sub-region. The ISO has determined that this policy is consistent with FERC Order 1000 regarding competitive solicitation. Please comment on this proposal.</u>

ITC agrees that Order 1000 links competitive solicitation with cost allocation. It is appropriate to conduct a competitive solicitation for facilities for which costs are allocated—whether between two or more sub-regions, or between two or more PTOs within a sub-region. As noted above, the CAISO should not exclude from cost allocation projects that meet a reliability need, as projects that meet a reliability need could potentially have broader benefits and the allocation of costs should follow those benefits.

9. FERC Order 1000 requires that the ISO establish in its tariff "back-stop" provisions for approving and determining cost allocation for needed transmission projects, in the event that the body of state regulators is unable to decide on a needed project. The revised straw proposal indicated that the ISO would propose such provisions in the next proposal for this initiative. Please offer comments and your suggestions for what such provisions should be.

   The decision whether to select a project for cost allocation, and how the cost of a project will be allocated, should not rest with a body of state regulators. Instead, the trigger(s) for cost allocation and method or methods for allocating costs should be clearly set forth in the CAISO Tariff. Thus, "back-stop" provisions should be unnecessary.

   Order 1000 addresses failures to reach stakeholder agreement on a method or methods for cost allocation that comply with the six cost allocation principles set forth in the Order and describes how the Commission will adjudicate such disputes (P 603-611). This discussion refers to the stakeholder process for developing an *ex ante* cost allocation method that complies with the Order—not the failure to reach consensus on the cost allocation for a particular transmission facility once the facility has been selected for cost allocation. As described above, the CAISO should propose a cost allocation regime for inclusion in its Tariff that clearly sets forth the cost allocation for any project that is selected in the regional plan for cost allocation and is therefore shielded from the contention that may arise when determining cost allocation on a facility-by-facility basis.

   Aside from the issue of who pays is the issue of whether the body of state regulators will agree on whether a needed project should be approved for inclusion in the regional plan. The CAISO's proposal sets forth the criteria that make a project *eligible* for cost allocation; eligible projects then go to the body of state regulators for a decision on whether a project will be built and how the costs will be allocated. This effectively gives state regulators a veto right on whether a project is included in the regional plan for cost allocation. While Order 1000 allows regions to propose such veto rights, the Commission declined to require from planning regions the inclusion of veto rights in their compliance plans, noting that state regulators have the ability to participate in the stakeholder process that identifies transmission needs (P 502). The selection of a project for cost allocation should result from a robust stakeholder process that evaluates a particular project against objective criteria set forth in the Tariff—not the decision of a body of state regulators.

10. The proposal indicated that the ISO would establish a formula for a single export rate (wheeling access charge or WAC) for the expanded region, and this rate would be a load-weighted average of all sub-regional license plate rates plus any region-wide postage stamp rate. Please comment on this proposal.

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11. The ISO proposed to retain the provision that once the BAA was expanded and a new TPP instituted for the expanded BAA, any subsequent PTO joining at a later date could be responsible for a cost share of new regional facilities approved in the expanded TPP, based on the benefits the new PTO receives from each such facility. Please comment on this proposal.

    On its face, it seems reasonable to assign a portion of the costs of new regional facilities approved after expanding the BAA to PTOs joining at a later date, commensurate with benefits. This approach addresses concerns about gaming (that a potential PTO may delay joining to avoid a cost share of new regional facilities). However, for this proposal to not dissuade new PTOs from joining, it is crucial that the CAISO establish *ex ante* cost allocation methods for this scenario so that a PTO can evaluate the magnitude of its potential cost share when assessing the expected costs and benefits of becoming a PTO.

12. The ISO dropped the proposal to recalculate sub-regional benefit shares for new regional facilities every year, and instead proposed to recalculate only when a new PTO joins the expanded BAA and creates a new sub-region, but at least once every five years. Please comment on this proposal.

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

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