Stakeholder Comments Template

Transmission Access Charge Options

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

Submitted by	Company	Date Submitted
Sandeep Arora *925.201.5252*	*LS Power Development, LLC*	*03/23/16*

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.

   This proposal for designating sub-regions is a reasonable approach.

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.

   LS Power supports the proposed definition of "existing facilities".

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.

   LS Power supports this element of the proposal.

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.

   LS Power recommends that criterion (a) be changed to > 200 kV consistent with the criteria currently used for identifying regional facilities in CAISO's current footprint.

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.

While a postage stamp or simple load-ratio share approach is much simpler to implement, the calculated benefit approach has the advantage of better aligning costs with the actual benefits. LS Power supports the use of a simpler postage stamp or simple load-ratio approach if a project provides widespread benefits to all sub-regions within the expanded CAISO footprint and if these benefits are more than one type: reliability, policy and/or economic benefits. Using a more detailed approach of quantifying benefits for each sub-region may be unnecessarily complex for such high value multiple benefit projects, and the accuracy of benefit calculations could be very subjective depending on what modelling scenarios are used for benefit assessment. On the other hand, if a project shows benefits for only a subset of all sub-regions within the expanded CAISO footprint, the benefits should be carefully quantified for each sub-region and the cost allocated proportionately to the sub-regions.

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.

This approach seems reasonable, however if a new entity had already participated in cost sharing of certain CAISO facilities through the Interregional Transmission Planning process prior to becoming a new PTO, then the entity may not need to be allocated additional costs associated with the same 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.

LS Power opposes this proposal. Implementing this is cumbersome, unnecessary, time consuming and raises unacceptable uncertainties with respect to rate recovery and financing for transmission investment. Planning decisions are typically made based on the best information available at the time, and the associated cost allocation is not revisited after a project goes into service. This proposal adds rate uncertainty for the Load Serving Entities paying for the project. Including a mechanism like this could deter investment in new transmission since sub-regions may be fearful of having to shoulder a larger portion of the cost going forward. This could also have a negative impact on grid reliability; CAISO ratepayers could lose the opportunity for economic savings, and put the state's GHG policy goals at risk.

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.

DFAX appears to be a reasonable approach for reliability "only" projects, and TEAM is a reasonable approach for economic "only" projects. For voltage and stability type reliability issues, DFAX may not be a suitable approach given the experience other Regions have on this, therefore if a reliability project is improving voltage and/or instability issues for one or more sub-regions a simpler postage stamp rate type approach should be used for these sub-regions. For public policy projects, as long as the project helps all sub-regions meet their public policy goals a much simpler load ratio or postage stamp approach should be used. For projects that offer two or more benefits to the sub-regions (economic, reliability and/or policy), associated costs should be allocated to the benefited sub-regions using the simpler approach.

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.

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.

The challenges experienced by other ISOs/RTOs in using DFAX should be carefully considered and the methodology adjusted, as needed. In addition to DFAX, which seems to be a reasonable approach for power flow type issues, CAISO should look at how voltage and stability issues should be quantified and benefits allocated. For such issues, CAISO may need to develop a simpler approach to allocate cost based on load share ratio or postage stamp approach. However, consideration should also be given to allocating a heavier weight to the sub-region that triggered the need for such upgrades.

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.

    TEAM methodology is a reasonable approach. However, some modifications related to the modelling assumptions may need consideration. One such assumption is the use of hurdle rates. For instance, while analyzing a new Regional project (under the expanded CAISO footprint), CAISO may need to modify standard TEPPC database hurdle rates to properly account of benefits from the new transmission line.

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.

    Yes, other benefits such as capacity benefits, grid security benefits and geographical diversity benefits should also be analyzed. These benefits are not captured as part of the production cost simulation studies but definitely have a major role in terms of economic impacts to the ratepayers. Improved geographic diversity benefits correlate with less integration costs; improved capacity benefits allow the entire CAISO BAA access to low capital cost capacity resources to meet Resource Adequacy needs, and improved grid security benefits helps prevent major blackouts which typically have significant societal and economic impacts. All these benefits should be accounted for as a new transmission project is reviewed and its costs allocated.

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.

    If a new transmission project is built to meet public policy needs of one sub-region within the expanded CAISO footprint, and it also offers additional reliability and economic benefits to all other sub-regions, then its costs should be allocated to all sub-regions. While it may be true that the need for the project is triggered by only one sub-region, if the project is also providing benefits to other sub-regions then the cost of this project should be shared. While the project may not be required to meet the public policy needs of one or more sub-regions currently, but if it provides enhanced transfer capability between sub-regions, this could very well help other sub-regions meet their public policy

needs in future. Having this said, it is probably fair that the sub-region that triggered the need for this new transmission project should pay a majority share of the costs.

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.

TEAM should be used for transmission projects that provide economic only benefits. If a project also provides reliability and/or policy benefits, then a simpler approach of allocating costs should be used.

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.

LS Power sees several issues with the BAMx proposal. This proposal will cause several uncertainties with respect to both new transmission and new generation investments. Under the current planning process, the need for a new public policy transmission project is triggered by renewable portfolio assumptions which are developed through a CPUC stakeholder process. The cost for this project is shared in accordance with the current CAISO regional cost sharing principles. If the cost sharing structure for these new public policy projects were to be allocated as suggested by BAMx, this will cause uncertainties in building new public policy transmission projects, which in turn will cause uncertainties with development of new renewable projects, thereby risking the state's success in meeting renewable policy goals. Another issue with the proposal is with respect to allocating a portion of the cost for these new public policy transmission projects to Merchant generators. If Merchant generators were to be allocated a portion of these costs, this will put them on an unequal footing with other generators that operate under a Power Purchase Agreement framework.

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

LS Power recommends that the general theme for assessing sub-regional benefits and cost allocation should be that in general the benefits assessment and cost allocation methodology should be simpler to the extent possible. Once cost allocations are established between the sub-regions for a new transmission project they should not be changed. If all sub-regions experience benefits from a new transmission project, all sub-regions should share some portion of project costs, however it is prudent to have the sub-region that triggers the need, whether its reliability or public policy or economic, pay a majority of the total cost of the projects and other sub-regions get allocated based on a simpler load ratio or postage stamp rate.