Six Cities' Comments

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the September 30, 2016 second revised straw proposal. The second 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 **October 28, 2016.**

Second Revised Straw Proposal

1. The ISO previously proposed 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. The ISO now proposes that an embedded or electrically integrated new PTO will become part of the relevant sub-region and will not have the choice to become a separate sub-region. This means that the new embedded/integrated PTO's transmission revenue requirements will be combined with those of the rest of its sub-region and its internal load will pay the same sub-regional TAC rate as the rest of the sub-region. Please comment on this element of the proposal.

   As discussed in response to Question #5 below and as the Six Cities have explained in prior comments on this initiative, the Six Cities do not support the CAISO's proposal to establish TAC sub-regions and implement license-plate sub-regional TAC rates. Further, the Six Cities note that retention of the existing "postage stamp" TAC methodology would obviate the need to grapple with whether embedded and/or electrically integrated Participating TOs should be subject to different cost allocation criteria than other prospective Participating TOs the CAISO deems non-embedded and/or not electrically integrated.

Subject to their general objections to the CAISO's proposal, in the event that the CAISO proceeds with its proposal to establish sub-regional rates, the Six Cities observe that the criteria that the CAISO proposes to use for identifying embedded/electrically integrated systems may present implementation challenges or controversy, as the determination as to embedded status and electrical integration appears to be somewhat subjective and could be open to differing interpretations. For example, will the CAISO base its decision on whether a Participating TO is embedded according to average load or peak load? Are Participating TOs' internal generation facilities netted against the load? In a larger system or one that covers a wide or unusually-shaped footprint, what might be the impact of isolated load pockets that may require imports over neighboring facilities in limited areas, but where other facilities may not meet the embedded/electrical integration tests? Some utilities contemplating CAISO Participating TO status may wish to know in advance whether the CAISO will classify their systems as embedded/electrically integrated or not. Will the CAISO publish its decisions, provide a stakeholder process around these determinations, or decide now which entities are embedded/electrically integrated?

2. An embedded PTO is defined as one that cannot import sufficient power into its service territory to meet its load without relying on the system of the existing sub-region. Whether a new PTO is considered electrically integrated will be determined by a case-by-case basis, subject to Board approval, based on criteria specified in the tariff. Please comment on these provisions of the proposal.

   Please see the comments provided above in response to Question #1.

3. The proposal defines "new facilities" as transmission projects planned and approved in an expanded TPP for the expanded ISO BAA. The integrated TPP will begin in the first full calendar year that the first new PTO is fully integrated into expanded ISO BAA. Projects that are under review as potential "inter-regional" projects prior to the new PTO joining may be considered as "new" if they meet needs identified in the integrated TPP. Please comment on these provisions.

   The Six Cities do not support the CAISO's proposal to establish TAC sub-regions and implement license-plate sub-regional TAC rates for existing facilities, while allocating the costs of new regional facilities across the sub-regions according to a menu of different criteria. The Six Cities further note that retention of the existing TAC methodology would obviate the need to distinguish between new and existing facilities for purposes of cost allocation.

   Subject to their general objections and in the event that the CAISO proceeds with its current proposal, the Six Cities observe that using completion of the first integrated TPP following integration of a new Participating TO to identify "new" facilities appears to provide a bright-line criterion to distinguish between new and existing facilities. However, the Six Cities have serious concerns that prospective Participating TOs will shape their planning processes prior to integration, particularly as to new economic and policy projects, with a view toward deferring such projects to the integrated TPP so as to potentially avoid having to pay for the full cost of such facilities on a sub-regional basis.

With respect to interregional projects, as the CAISO is aware, the first interregional process is underway, and the Six Cities understand that it will be completed over an approximately two year period through the end of 2017. The Six Cities request that the CAISO clarify how it will address any interregional projects under its integrated TPP. Is the CAISO stating that any approved interregional projects will be-restudied under the integrated TPP as new projects? How does this approach fit with the interregional study processes? Or will the subsequent studies merely evaluate how the costs of the CAISO's share of interregional projects will be allocated as between the sub-regions?

4. <u>The ISO previously defined "existing facilities" as transmission assets planned in each entity's own planning process for its own service area or planning region, and that are in service, or have either begun construction or have committed funding to construct. The ISO is now simplifying the proposal to define "existing facilities" as all those placed under operation control of the expanded ISO that are not "new." Please comment on the ISO's proposed new definition of "existing facilities."</u>

   Please see the Six Cities' comments above in response to Question #3.

5. <u>Consistent with the previous revised straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional "license plate" TAC rates. The ISO has proposed that each sub-region's existing facilities comprise "legacy" facilities for which subsequent new sub-regions have no cost responsibility. Please comment on this aspect of the proposal.</u>

   The Six Cities do not support the CAISO's proposal to establish sub-regional TAC rates for existing facilities. The Six Cities have previously advised the CAISO of their view that such an approach would not result in the allocation of costs of the existing transmission system to all parties that would benefit from those facilities under a regional ISO. Furthermore, as demonstrated by participation in the Energy Imbalance Market, the benefits of participation in CAISO's day-ahead market optimization could potentially offset increased TAC obligations. Thus, the Six Cities reiterate their preferred approach, which is to retain the existing methodology.

   In the event that the CAISO does not retain the existing methodology, the Six Cities continue to support crafting a transition to a fully rolled-in regional TAC over a period of time, such as ten years. The ten year transition period would apply to both existing and new facilities and would begin when the first new Participating TO triggers a regional ISO.

   As explained above, the Six Cities continue to support the existing cost allocation methodology. The alternative cited above may be acceptable to Six Cities if included in a revised Straw Proposal that, as a package, ensures that PacifiCorp shares in the cost of the existing system from which the Cities believe all participants in the expanded regional ISO will benefit and equitably allocates the cost of new transmission facilities.

The Six Cities could likewise consider other possible alternatives if they provide for new Participating TOs to share in the cost of the existing grid and are otherwise fair and equitable with respect to existing customers.

6. The ISO proposes to use the Transmission Economic Assessment Methodology (TEAM) to determine economic benefits of certain new facilities to the expanded ISO region as a whole and to each sub-region. Please comment on these uses of the TEAM.

   The Six Cities do not support the CAISO's proposal to establish TAC sub-regions and implement license-plate sub-regional TAC rates for existing facilities, while allocating the costs of new regional facilities across the sub-regions according to various criteria. As stated elsewhere, retention of the existing TAC methodology would avoid the need to distinguish between new and existing facilities for purposes of cost allocation.

   Subject to their general objections and in the event that the CAISO proceeds with its current proposal, the Six Cities do not oppose the use of the TEAM methodology to determine the economic benefits of facilities to the expanded region. The use of TEAM to correlate the benefits to each sub-region, should the CAISO adopt sub-regional TAC rates, also seems to be reasonable.

   The Six Cities are concerned that the use of a one-time TEAM assessment to allocate the costs for facilities that may be in service for as long as 50-60 years may result in cost allocations that could become unjust and unreasonable over time if the parties that use and benefit from the facilities change from the original TEAM results. To the extent that the CAISO elects not to address changing use patterns in its cost allocation methodology, the Six Cities assume that parties would retain their rights to file a complaint with FERC alleging that a previously-established cost allocation had become unjust and unreasonable and should be revised.

7. For a reliability project that is narrowly specified as the more efficient or cost-effective solution to a reliability need within a sub-region, and has not been expanded or enhanced in any way to achieve additional benefits, the ISO proposes to allocate the project cost entirely to the sub-region with the driving reliability need, regardless of any incidental benefits that may accrue to other sub-regions. Please comment on this provision.

   The Six Cities do not support the CAISO's proposal to establish TAC sub-regions and implement license-plate sub-regional TAC rates for existing facilities, while allocating the costs of new regional facilities across the sub-regions according to various criteria. As stated elsewhere, retention of the existing TAC methodology would obviate the need to distinguish between new and existing facilities for purposes of cost allocation. The Six Cities note that the benefits of a reliable transmission system are shared by all users of that system, irrespective of any sub-regional boundaries the CAISO may establish.

   Subject to their general objections and in the event that the CAISO proceeds with its current proposal, the Six Cities concur with allocating the costs of a reliability project to the sub-region that has the reliability need for the project.

8. For a policy-driven project that is connected entirely within the same sub-region in which the policy driver originated, the ISO proposes to allocate the project cost entirely to the sub-region with the driving policy need, regardless of any incidental benefits that may accrue to other sub-regions. Please comment on this provision

   The Six Cities believe that there is continued merit in consideration of an alternate proposal to allocate the costs of policy-driven projects to entities that engage in procurement from projects that will utilize the policy-driven transmission facilities. Such an approach will ensure that customers who have already procured sufficient resources to satisfy any policy-driven procurement requirements are not required to pay for additional transmission projects to enable other entities to meet those requirements.

9. For a purely economic project with benefit-cost ratio (BCR) > 1, cost shares will be allocated to sub-regions in proportion to their benefits, and because BCR > 1 this completely covers the costs. A purely economic project is one that is selected on the basis of the TPP economic studies following the selection of reliability and policy projects, and is a distinct new project, not an enhancement of a previously selected reliability or policy project.

   The Six Cities urge the CAISO to consider raising the benefit-cost ratio ("BCR") above > 1, such as to ≥ 1.25. The Six Cities are concerned that retaining an unduly low threshold for economic projects may result in the approval of costly new projects that may provide only limited benefits. Not only could benefits calculations shift in subsequent years, but cost overruns may diminish initial benefits calculations. Thus, the CAISO should require a strong showing of calculated economic benefits in order to move forward with new transmission projects for economic reasons.

   In terms of the proposed allocation between sub-regions for economic projects, the Six Cities reiterate their general objections to the CAISO's Proposal to use sub-regional rates.

10. For an economic project that results from modifying a reliability or policy-driven project to obtain economic benefits greater than incremental project cost, the ISO proposes to first, allocate avoided cost of original reliability or policy-driven project to the relevant sub-region, then allocate incremental project cost to sub-regions in proportion to their economic benefits determined by TEAM. This is called the "driver first" approach to cost allocation. The proposal also illustrated an alternative "total benefits" approach. Please comment on your preferences for either of these approaches.

    The Six Cities do not support the CAISO's proposal to establish TAC sub-regions and implement license-plate sub-regional TAC rates for existing facilities, while allocating the costs of regional facilities across the sub-regions according to various criteria. Retention of the existing TAC methodology would obviate the need to distinguish between new and existing facilities for purposes of cost allocation. It would also remove the need for the CAISO and stakeholders to imagine different combinations of project scenarios and attempt to craft default cost allocation methodologies to accommodate projects that do not fit neatly into one category.

Subject to their general objections and in the event that the CAISO proceeds with its current proposal, the Six Cities agree with the "driver first" approach – *i.e.*, allocating the avoided cost of the reliability project to the sub-region with the need for the project, and allocating the remaining cost to the sub-regions according to economic benefits.

11. The proposal outlined two scenarios for policy-driven projects involving more than one sub-region. In scenario 1, where a project built within one sub-region meets the policy needs of another sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the sub-region that was the policy-driver. Please comment on this cost allocation approach for scenario 1.

    The cost allocation approach described above would create a *de facto* tax on individual entities operating in the region that has policy needs (or economic needs) to the extent such entities do not need and will not use the new economic or policy-driven transmission to meet their individual policy or economic needs, objectives, or compliance obligations. The result would be impermissible cross-subsidization. As explained in response to Question #8 above, the Six Cities believe that the ISO should explore an alternative approach to the allocation of economic or policy-driven projects, whereby entities that purchase the output of resources relying on the policy or economic project pay for the costs of that project.

    As between "scenario 1" as described in this question versus "scenario 2" as described in Question #12 below, the Six Cities prefer the methodology reflected in scenario 1. Scenario 2 virtually ensures that the CAISO sub-region will pay a large share of any policy based projects. However, the Six Cities stress their general objections to the use of sub-regional rates.

12. In scenario 2, where a policy project meets the policy needs of more than one sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the relevant sub-regions in proportion to their internal load for project in-service year. Please comment on this cost allocation approach for scenario 2.

    Please see the Six Cities' response to Question #11.

13. 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, regardless of whether their costs are allocated to only one or more than one sub-region, with exceptions only for upgrades to existing facilities as stated in ISO tariff section 24.5.1. Please comment on this proposal.

    The Six Cities do not oppose this aspect of the proposal, subject to their general objections as outlined elsewhere.

14. <u>The ISO proposes to drop the earlier proposal to recalculate benefit and cost shares for sub-regions and the proposal to allocate cost shares to a new PTO for a new facility that was planned and approved through the integrated TPP but before that new PTO joined the expanded ISO. Please comment on the elimination of these proposal elements.</u>

    The Six Cities observe that, as with the CAISO's proposal to allocate the costs of non-new facilities on a sub-regional basis, this aspect of the CAISO's proposal will allow new Participating TOs who may use and benefit from the existing transmission facilities to avoid paying any share of the costs of such facilities. Retention of the existing methodology would avoid this result.

15. <u>The ISO proposes to establish a single region-wide export rate ("export access charge" or EAC) for the expanded region, defined as the load-weighted average of the sub-regional TAC rates. Please comment on this proposal.</u>

    Subject to their general objections to the CAISO's proposal to establish sub-regional rates, the Six Cities support the CAISO's proposal to establish a single, region-wide EAC. However, the Six Cities do not support the CAISO's proposal to calculate the EAC as the load-weighted average of the sub-regional TAC rates. Instead, the EAC should be based on the highest of all of the sub-regional TAC rates. If a load-weighted average is used, it appears that the EAC will not generate sufficient revenues to make the CAISO sub-region whole, because the total revenues collected will not be adequate to appropriately compensate the CAISO sub-region for the use of its facilities.

16. <u>Under the EAC proposal, non-PTO entities within a sub-region would pay the same sub-regional TAC rate paid by other loads in the same sub-region, rather than the wheeling access charge (WAC) they pay today. Please comment on this proposal.</u>

    The Six Cities take no position on this aspect of the CAISO's proposal. At this time, the high voltage TAC and WAC rates are equivalent, so the Six Cities understand this change to be one of nomenclature, at least within the CAISO sub-region. If this understanding is not correct, the Six Cities request that the CAISO provide a clarification. Would the CAISO still track TAC revenues paid by these non-Participating TO entities, and would Participating TOs still be required to credit such revenues through their Transmission Revenue Balancing Accounts?

17. <u>The ISO proposes to allocate EAC revenues to each sub-region in proportion to their transmission revenue requirements. In the August 11 working group meeting the ISO presented the idea of allocating EAC revenues to each sub-region in proportion to its quantity of exports times its sub-regional TAC rate. Please comment on these two approaches for EAC revenue allocation, and suggest other approaches you think would be better and explain why.</u>

    The Six Cities support distributing EAC revenues to Participating TOs in proportion to their transmission revenue requirements. Would these revenues be credited through the Transmission Revenue Balancing Account?

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

    The Second Revised Straw Proposal confirms that the costs of facilities classified as Low Voltage will continue to be allocated on a Participating TO-specific basis. The Six Cities support retaining this element of the current TAC methodology. As explained in their stakeholder comments in the Generator Interconnection Driven Network Upgrade Cost Recovery initiative, the Six Cities do not support the CAISO's proposal to reflect the costs of Low Voltage Network Upgrades due to generation interconnections in the High Voltage TAC. In keeping with that view, the Six Cities do not support any changes to Network Upgrade cost allocation that would result in Low Voltage Network Upgrades to the PacifiCorp system (or the system of any other prospective Participating TO that may become a sub-region in the future) being allocated to the existing CAISO sub-region.