Stakeholder Comments Template

Transmission Access Charge Options

August 11, 2016 Stakeholder Working Group Meeting

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the August 11, 2016 stakeholder working group meeting. Topic 1 of the template is for comments on the default cost allocation provisions for new regional transmission facilities, the topic of the morning session of the working group. Topic 2 is for comments on the region-wide TAC rate for exports, which the presentation referred to as the "export access charge" (EAC) and was the topic of the afternoon session of the working group. The ISO invites stakeholders to offer their suggestions for how to improve upon the ideas discussed in the working group meeting.

The presentation for the August 11 meeting 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 **August 25, 2016.**

Introduction/General Comment by Six Cities: The August 11, 2016 working group discussion was framed in the context of the ISO's proposal to substantially change the TAC structure currently in effect for the ISO BAA. In several sets of comments submitted previously in the TAC Options Initiative, the Six Cities have expressed and explained their strong opposition to the general framework for the regional TAC as proposed by the ISO. By submitting the comments below regarding certain elements of the proposed TAC structure, the Six Cities expressly do not withdraw or waive their objections to the overall framework proposed by the ISO.

Topic 1. Default Cost Allocation Provisions for New Regional Transmission Facilities

Context

For purposes the working group discussion the ISO assumed that the current structure of the transmission planning process (TPP) would be retained for the expanded BAA. That is, the TPP would consist of a first phase for specifying and adopting planning assumptions including public policy directives that would drive transmission needs, as well as a study plan. The second phase would consist of a sequential process for performing planning studies and identifying reliability projects, followed by policy-driven projects, and finally economic projects. With each successive project category, the ISO may identify a project that serves the need of a project identified in a prior category, in which case the project would be labeled by the last category in which it was identified, but its cost allocation would reflect the benefits in all categories.

By design these two TPP phases take 15 months, at the end of which the ISO would present the comprehensive transmission plan for approval to the governing board for the expanded BAA. At the working group meeting the ISO also pointed out that while the concept of a "body of state regulators" or "Western States Committee" is still under discussion in the context of governance for the expanded BAA, no details have been developed or proposed regarding this entity's role with regard to transmission planning and cost allocation. Moreover, once the default provisions being discussed in the working group are finalized, filed and have been approved by FERC for inclusion in the ISO tariff, any variations or deviations from those provisions would also have to be filed and approved by FERC. Stakeholders should therefore view the current effort to develop default cost allocation provisions as determining the rules that would govern transmission cost allocation for the expanded BAA.

Stakeholders should assume for purposes of their comments that the current ISO TPP structure would be followed in an expanded TPP performed for the expanded BAA. Parties wishing to comment on or suggest alternatives to these assumptions may add any additional comments at the end of this topic.

Questions

1. The working group presentation assumed we would use the current Transmission Economic Assessment Methodology (TEAM) to calculate a project's economic benefits to the BAA as a whole and to each of the sub-regions. Currently TEAM calculates the following types of benefits: efficiency of the economic dispatch, reduction of transmission line losses, and reduction of resource adequacy capacity costs. Are these economic benefit types sufficient for purposes of cost allocation, or should other types of benefits be included? Please describe any additional benefit types you would include in the benefits assessment and suggest how they could be quantified.

Six Cities' Comments: As discussed below in response to Questions 2 through 4, avoided costs for facilities that otherwise would be necessary to maintain reliability should be quantified and

identified as benefits to be allocated to the sub-region or sub-regions that would have required such facilities to maintain reliability.

2. The ISO's presentation suggested that a sub-region's avoided cost for a needed transmission project could be included among the benefits of a project with region-wide benefits. For example if project A with region-wide economic benefits enables sub-region 1 to avoid a reliability project B that would have cost $40 m, then the $40 m avoided cost should be included in the total benefits of project A for purposes of cost allocation to the sub-regions. Please comment on whether such avoided costs should be included in the benefits for cost allocation purposes.

Six Cities' Comments: Avoided costs for facilities that otherwise would be necessary to maintain reliability should be quantified and identified as benefits to be allocated to the sub-region or sub-regions that would have required such facilities to maintain reliability.

3. In the example of Question 2 a specific project B was identified to meet a reliability need, and so its avoided cost could be viewed as a realistic estimate of the cost to sub-region 1 of mitigating its reliability need. In many instances in practice, however, cost-effective projects may be identified that provide economic, policy and reliability benefits without the planners ever identifying less costly but narrowly-scoped hypothetical alternative projects that could serve to provide concrete avoided cost estimates. Do you think it is important to perform additional studies to determine meaningful avoided cost estimates to use in cost allocation, perhaps by identifying hypothetical alternatives that would not ordinarily be considered in the TPP? Are there other approaches you would favor for estimating avoided costs to use in cost allocation? What other methods should the ISO consider for allocating reliability or policy "benefits" to a sub-region absent a well-defined project that can be avoided?

Six Cities' Comments: If facilities required to maintain reliability have not otherwise been studied as part of the TPP, the analysis of benefits associated with a project that is expected to provide economic, policy, and reliability benefits should include additional studies to the extent necessary to identify, at least in conceptual terms, and provide cost estimates for a least cost solution or solutions sufficient to address reliability needs.

4. The cost allocation approach presented at the working group for projects with benefit-cost ratio BCR < 1) started by first allocating cost shares equal to economic benefits, and only after that allocating remaining costs to the sub-region(s) driving the reliability or policy need. In the discussion, some parties suggested reversing this order, i.e., to start by allocating a cost share to the sub-region with the reliability or policy driver base on the avoided cost of the reliability or policy project it would have had to build, and only then allocating remaining costs based on economic benefit shares. Please state your views on these two approaches, or describe any other approach you would prefer and explain your reasons.

Six Cities' Comments: Avoided costs for facilities that otherwise would be necessary to maintain reliability should be quantified and allocated first to the sub-region or sub-regions that would have required such facilities to maintain reliability. The next step should be allocation of cost shares equal to economic benefits. If the sum of avoided reliability costs and economic

benefits is not sufficient to cover the full costs of the project, the sub-region or sub-regions that assert a policy need for the project should be allocated the remaining costs of the project, or, if they are not willing to accept such allocations, the project should not be pursued further in that TPP cycle. Instead, any facilities necessary to maintain reliability should move forward, and their costs should be allocated to the sub-region or sub-regions having the identified reliability need.

5. The presentation at the working group suggested that all facilities > 200 kV planned through the expanded TPP would be assessed for potential region-wide economic benefits. Some parties suggested the ISO should apply threshold criteria to eliminate projects that clearly would not have region-wide benefits, rather than perform TEAM studies for all > 200 kV. Do you support the use of threshold criteria? If so, what criteria would you apply and why?

Six Cities' Comments: The Six Cities believe that TEAM studies should be performed for all facilities at or above 200 kV planned through the expanded TPP. The vast majority, if not all, > 200 kV projects will have some measure of region-wide benefits, and it is difficult to imagine a set of clearly-defined and objective criteria that could be applied to conclude that projects at or above 200 KV "clearly would not have region-wide benefits."

6. Do the details of TEAM, e.g., financial parameters, period over which present values are determined, etc., need to be pre-determined to maximize consistency of methodology and criteria across all projects, or should case-by-case considerations be taken into account?

Six Cities' Comments: The Six Cities have no comments on this topic at this time.

7. Should incidental benefits to a sub-region cause a cost allocation share for that sub-region even though the project would not have been built but for a reliability or policy need in another sub-region?

Six Cities' Comments: The term "incidental benefits" as used in the question is undefined and unclear, but as a general matter, once avoided costs for facilities required to maintain reliability have been allocated as described in the response to Question 4 above, any sub-region that would receive economic benefits from a project should help to pay for the project in proportion to its share of economic benefits.

8. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.

Six Cities' Response: The Six Cities have no additional comments on this topic at this time.

Topic 2. Region-wide "Export Access Charge" (EAC) Rate for Exports and Wheel-throughs

Context

For the working group discussion, the ISO's presentation assumed a scenario where the current ISO BAA is expanded by the integration of a large external PTO such as PacifiCorp, and that the current ISO footprint and the new PTO would each be a "sub-region" with its own separate sub-regional TAC rate for load internal to the sub-region. The ISO further assumed that in this future scenario, only exports and wheel-throughs would pay the new EAC rate, while the "non-PTO" entities internal to the ISO BAA who currently pay the WAC would pay the sub-regional TAC rate. **Please assume the same in responding to the questions below.** If you wish to comment on or propose alternatives to these assumptions you can add any additional comments at the end of this section.

Questions

1. For an expanded BAA do you agree that a single region-wide access charge rate for exports and wheel-throughs is appropriate? Please explain your reasons. NOTE: This question is only about whether a single rate is appropriate, not about how that rate should be determined; the latter is covered in question 3 below.

Six Cities' Comments: Yes, there should be a single region-wide access charge rate for exports and wheel-throughs. Applying different EACs for different sub-regions would create unwarranted transmission cost advantages for some resources within the expanded BAA while subjecting other resources to transmission cost disadvantages, thereby distorting price signals and dispatch efficiency.

2. If you answered YES to question 1, do you favor the load-weighted average rate the ISO presented at the meeting, or another method for determining the single rate? Please explain the reasons for your preference.

Six Cities' Comments: The Six Cities recommend that the region-wide EAC be established as the highest of the sub-regional rates in the expanded BAA. Setting the EAC at the level of the highest sub-regional rate is necessary to maximize the probability that the sub-region with the highest unit costs for transmission receives appropriate compensation for the use of its transmission facilities to support export and wheel-through transactions. In addition, setting the EAC at the level of the highest sub-regional rate may encourage broader participation in the regional ISO.

3. To distribute the revenues collected via the EAC, the ISO's presentation suggested giving each sub-region an amount of money equal to the MWh volume of exports and wheels from the sub-region times the sub-regional TAC rate. Please indicate whether you would support this approach or would prefer a different approach for distributing EAC revenues to the sub-regions.

Six Cities' Comments: At this time the Six Cities are unable to provide substantive comments on allocation of EAC revenues, because it is not clear how the ISO proposes to identify the MWh volume of exports and wheels from a sub-region. For example, assume a resource sited in sub-region 1 of the expanded RISO exports energy at an intertie point between sub-region 2 of the expanded RISO and an external BAA that does not participate in the RISO. In this situation, the export transaction clearly would use the facilities of both sub-region 1 and sub-region 2. Would the ISO count the MWh of the transaction as an export from sub-region 1 (based on the source of the transaction) or from sub-region 2 (based on the intertie point at which the energy exits the RISO BAA) or both?

With respect to the specific circumstances relating to PacifiCorp, the Six Cities request additional information regarding PacifiCorp export transactions:

a) Where transfers occur from PacifiCorp East to PacifiCorp West over intervening third party transmission facilities, does the ISO consider such transfers to be "exports" or "wheel-throughs" of PacifiCorp?

b) What is the source for the 34,996,078 MWh figure shown on Slide 27 of the working group presentation for "exports on other PAC ties"?

c) What types of transactions are included in the 34,996,078 MWh PAC export figure?

d) Would all of the transactions in the 34,996,078 MWh PAC export figure be expected to pay EAC charges in an expanded RISO?

e) If not, how many of the transactions in the 34,996,078 MWh PAC export figure would be expected to pay EAC charges in an expanded RISO?

f) What revenues did PacifiCorp receive in 2015 from the transactions included in the 34,996,078 MWh PAC export figure?

g) In which FERC accounts did PacifiCorp record the revenues from the transactions included in the 34,996,078 MWh PAC export figure?

The information requested is necessary to develop an understanding concerning the relative use of the ISO and PacifiCorp systems to support export and wheel-through transactions. In principle, the allocation of EAC revenues should be commensurate with each sub-region's contribution to the generation of such revenues.

4. The working group presentation illustrated how the method of distributing EAC revenues to sub-regions would most likely produce "unadjusted" sub-regional shares that do not add up exactly to the amount of EAC revenues collected from exports and wheels. The presentation offered one approach for distributing any **excess EAC revenues** to the sub-regions. Do you support that approach, or would you prefer a different approach? Please explain.

Six Cities' Comments: See the response to Question 3 above.

5. Suppose that in a given year the EAC revenues are not sufficient to cover a distribution to sub-regions that aligns with sub-regional TAC rates, as described in question 3. How would you propose the ISO deal with that situation? I.e., should the ISO ensure that each sub-region receives export revenues equal to its sub-regional internal TAC rate times the volume of exports from its facilities, drawing upon other TAC revenues if necessary, or should the ISO only return EAC revenues to sub-regions until the EAC revenues are used up?

Six Cities' Comments: See the response to Question 3 above. In addition, the Six Cities request that the ISO explain what "other TAC revenues" might be available to address a shortfall in EAC revenues? The Six Cities note, however, that utilizing the highest sub-regional TAC rate as the EAC rate, as recommended in response to Question 2 above, would minimize the risk of a shortfall in EAC revenues.

6. If you answered NO to question 1, please explain what rules or principles you would prefer be applied to exports and wheel-throughs. Please discuss both (a) how you would propose to charge exports and wheel-throughs, and (b) how you would distribute the revenues collected to the sub-regions.

Six Cities' Response: Not applicable

7. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.

Six Cities' Comments: The Six Cities note that the development of the EAC and the methodology for allocation of EAC revenues are significantly more complex as a direct result of the ISO's proposal for a TAC framework based on sub-regional TAC charges. If the regional TAC structure were based on a transition to a single-system high voltage access charge consistent with the TAC structure currently in place, it would significantly reduce the complexity of addressing corollary issues such as EAC.