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.

   No comment.

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.

   Regardless of the approach adopted by CAISO, TURN does not believe that any of the PacifiCorp Gateway projects should be eligible for treatment as "new facilities". These projects were planned and approved under a Fast Track process developed in 2007 by the planning committee of the Northern Tier Transmission Group (NTTG). Gateway has subsequently been included in NTTG transmission plans. As a result, the project should be considered "existing" and not eligible for regional cost allocation.

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.

   The straw proposal is one-sided and would severely disadvantage CAISO customers. Even before the impact of transmission expansions are considered, PacifiCorp expects to receive two to three times more benefits per MWh from the merger of the two balancing authorities. Table 1 (see following page) presents estimates from PacifiCorp's "Integration Study" of the annual benefits to current PacifiCorp and CAISO customers for the years 2024 and 2030 (other than for renewable procurement savings). Some recognition of the higher proportionate amount of benefits that PacifiCorp expects to receive should be given in the allocation of the costs of existing transmission. For example, PacifiCorp could assume a portion of the costs of existing CAISO transmission needed to yield equivalence in estimated benefits between customers in the two existing systems. As shown in Table 1, in the study's high scenarios, PacifiCorp customers could absorb an increase in the TAC of at least \$1.0/MWh and receive the same net benefits as CAISO customers provided that CAISO customers receive a rate reduction yielding the same amount of TRRs as the increase to PacifiCorp customers.

Comments - Table 1 - 3-17 v1

		Estimated Annual Savings												
		PacifiCorp				CAISO				PacifiCorp + CAISO				
		2024		2030		2024		2030		2024		2030		
	Units	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Notes:
More efficient unit commitment and dispatch	$MM	31	36	46	54					31	36	46	54	1/ 2/
Lower peak capacity costs	$MM	0	25	17	25	61	65	61	65	61	90	78	90	1/
More efficient overgeneration management	$MM	31	138	31	138	31	138	31	138	62	276	62	276	1/
Subtotal	$MM	62	199	94	217	92	203	92	203	154	402	186	420	1/
Load	gWh	77,297		81,240		232,694		244,564		309,991		325,804		3/
Average Savings	$/MWh	0.802	2.574	1.157	2.671	0.395	0.872	0.376	0.830	0.497	1.297	0.571	1.289	4/
Ratio of PacifiCorp to CAISO Average Savings	ratio	2.0	3.0	3.1	3.2									5/
Adder to Rates to Yield Equal Customer Benefits	$/MWh	0.305	1.278	0.586	1.382	(0.101)	(0.424)	(0.195)	(0.459)					6/

Notes & Sources:

1/ Regional Coordination in the West: Benefits of PacifiCorp and California ISO Integration, October 2015, Tables 2 and 3 (p. 19).

2/ *Id.,* footnote to Table 3, said benefits to CAISO omitted, but expected to exceed zero.

3/ ImpactAssessmentTool-TransmissionAccessChargeOptions.xlsx, "Assumptions" worksheet, rows 14 and 25. 2029 load used as proxy for 2030 load.

4/ Equals "Subtotal" divided by "Load".

5/ Equals PacifiCorp "Average Savings" divided by CAISO "Average Savings".

6/ Equals PacifiCorp or CAISO "Average Savings" minus "PacifiCorp + CAISO" " Average Savings". Positive numbers denote increase in rates and negative numbers denote decrease in rates.

4. <u>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.</u>

   Estimates of the benefits of joining the CAISO should be made and transmission costs allocated appropriately before any transmission expansion is completed. See response to Question 3 above.

5. <u>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.</u>

   These criteria would be relatively easy for any new project to satisfy and are not sufficient to justify regional cost allocation. TURN suggests as to (a) that a lower transmission level voltage may be appropriate (such as 200 kV) and as to (b) and (c) that some threshold level of "increases" should be developed in advance before regional cost allocation is invoked.

6. <u>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.</u>

   This is a good idea, subject to concerns identified below with respect to the TEAM or other methodology

7. <u>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.</u>

This is a reasonable proposal, subject to concerns identified below with respect to the TEAM or other methodology.

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.

An annual review of transmission benefits and related allocations of transmission costs could have substantial advantages. In particular, such exercises could reallocate transmission costs based on the actual benefits regions receive from the related transmission investments, benefits that might vary substantially over time. One key source of such variations may be states' different approaches to complying with the Clean Power Plan or other environmental challenges.

See also response to Question 17 below.

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).

TURN will take this opportunity to comment on the transmission cost data the CAISO provided to help parties assess various transmission cost allocation scenarios. TURN notes three issues in particular that could significantly understate the rate impacts and effectively misrepresent the outcome of different scenarios.

Levelized Fixed Charge Rates

The CAISO "recommended" that the costs of new regional transmission projects developed in a revised Transmission Planning Process (TPP) be estimated using a fixed charge rate (FCR) of 15 percent per year. TURN notes that it is important to recognize that Transmission Revenue Requirements (TRRs) are not recovered on such a "levelized" basis. Rather, TRRs are computed using traditional Straight-Line Depreciated Original Cost (SLDOC) ratemaking that "front loads" cost recovery into the early years of an asset's life and recovers smaller amounts of costs in the later years of an asset's life. In assessing large new inter-regional projects, SLDOC cost recovery has different rate impacts than are shown by the use of levelized FCRs. As a general rule-of-thumb, the rate impact of new regional transmission projects could be approximately double the level FCR in the first year and decline year-after-year.

Return on Equity Adders

The TRR data the CAISO provided also do not appear to include additional Returns-on-Equity (ROE) PacifiCorp could receive, specifically (a) a 50 basis point adder to ROE for joining an RTO/ISO[1], and (b) an additional 200 basis point adder to ROE for the costs of

[1] Order No. 679, FERC Stats. & Regs. ¶ 31,222.

the Gateway project.[2] The former incentive would raise PacifiCorp customers' transmission costs by about $4 million per year per billion dollars of transmission investment; the latter incentive would raise PacifiCorp transmission revenues for the Gateway project by over $16 million per year per billion dollars of the project's recoverable costs.

Loss of "Wheeling Out" Revenues

TURN understands that combining the CAISO and PacifiCorp Balancing Authorities (BAs), as proposed, would result in a single BA Area that has no internal transmission rates within the BA, including among the BA's sub-regions. This change would apparently result in the reduction in "wheeling out" revenues that current CAISO PTOs receive for transactions from the CAISO to other entities. Analysis should be conducted to assess the impact of the loss of "wheeling out" revenues and other possible adjustments to TRRs that might be made for a combined Balancing Authority

Requirement for competitive solicitations should apply to all projects (including Gateway)

The straw proposal would require that any regional facility seeking regional cost allocation be open for competitive solicitation. (Straw Proposal, page 15) The straw proposal would prevent any facility not satisfying the competitive solicitation requirement from having cost recovery from beyond the subregion in which they are connected. However, CAISO explained during the March 1 stakeholder meeting that this requirement may be waived for projects identified in a "transition agreement" currently being privately negotiated with PacifiCorp. The "transition agreement" is not part of any stakeholder process and the contents will not be known until the agreement is complete and submitted for approval to FERC. It is possible that the transition agreement will not be available for public review until after the end of the current California legislative session. TURN strongly urges the CAISO not to allow any exceptions to the competitive solicitation requirement for projects seeking regional cost allocation. Any exception undermines the integrity of the TAC allocation policy, encourages new PTOs to seek special deals relating to their entry into a regional ISO, and could end up making the competitive solicitation requirement largely irrelevant. The CAISO should not be making special deals with any new PTO that causes the TAC to increase for customers in another subregion. Such an outcome diminishes the credibility of the CAISO and undermines claims that the development of a regional balancing authority is designed to benefit customers rather than the shareholders of transmission owners.

[2] PacifiCorp 2015 Integrated Resource Plan, pages 199-200; *Order on Petition for Declaratory Order by PacifiCorp*, 125 FERC ¶ 61,076 (2008) at P 59.

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.

    TURN recommends the use of a consistent approach to allocating the costs of new transmission projects, one that is focused on assessing their economic benefits so that costs can be allocated from those who actually benefit. But as discussed in further responses below, the design and implementation of such a method needs careful attention.

    It is also not clear to TURN exactly whether the CAISO intends to propose an approach for allocating the costs of "public policy" projects. The only clue is the statement (with which TURN agrees) that "the method adopted should assess benefits to each sub-region irrespective of the particular state whose policy mandate was the originating motivation for the project". (Straw Proposal, p. 16) TURN recommends against allowing "public policy" rationales to serve as the basis for any specific cost allocation. Projects may be initially promoted as serving a particular state "public policy" despite the fact that the actual completed project is not ultimately used for this purpose. The CAISO should not allow the "public policy" rationale to be misused in this manner.

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.

    TURN agrees that benefit assessments are the best means of allocating the costs of new transmission projects.

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.

    TURN does not agree with this approach, but prefers the use of economic benefit assessments for cost allocation.

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.

An approach that allocates costs based on quantifiable benefits would be better, even for "reliability" or "public purpose" projects. The TEAM is one such approach, though TURN is open to other suggestions.

TURN also notes that, as the CAISO acknowledged in the March 9 meeting, the TEAM is not fully documented. TEAM must be documented fully before this proposal can be adopted.

14. <u>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.</u>

    It may be appropriate to include other benefits in the TEAM. The CAISO has already done so by including "capacity" benefits in the study of the Delaney-Colorado River line. Additional potential "other" benefits include environmental benefits, such as lower-cost compliance with Clean Power Plan requirements.

15. <u>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.</u>

    TURN agrees with the straw proposal that a state whose policy was the driver of a project should not be assumed to pay for all of a purportedly-related project. The use of an estimate of benefits would be superior, and recalculating such benefits annually would ensure that regions enjoying the benefits of a project will pay for that project. For example, transmission purportedly built to facilitate renewable energy procurement by California LSEs should not be allocated to current CAISO customers if the project is never actually used for this purpose.

16. <u>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.</u>

    Yes.

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.

    TURN likes the approach BAMx offered because it would attempt to match the allocation of a project's costs to the project's actual benefits over time. This is a desirable outcome, particularly as the flow of "benefits" could change based on future grid changes and other factors, such as various states' efforts to comply with the CPP and other environmental initiatives.

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

    In addition to the public results of any TEAM analyses, interested stakeholders must also have the opportunity to review TEAM inputs and outputs in detail. TURN is under the impression that such a level of disclosure would far exceed the information that is now provided to parties following the CAISO's current application of TEAM within its TPPs, though TURN believes this may be due to a lack of interest on the part of current TPP participants. However, the CAISO should assume that parties will have a much stronger interest in reviewing TEAM results in a combined Balancing Authority and be prepared to provide reasonable access to TEAM inputs and outputs.