

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 at this time.

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.

TransWest Express (TransWest) agrees with these definitions and notes that the costs for an “existing facility” may have been previously allocated through the FERC Order No. 1000 Interregional Transmission Coordination (ITC) process. Thus, the process to allocate “new facility” costs should recognize that cost allocation for a particular facility may have already taken place. This potential ITC cost allocation scenario reinforces the need to implement the ISO’s proposal to conduct a per facility cost allocation method for new PTOs joining the ISO. A per facility cost allocation method is more appropriate than a regional (*i.e.* postage stamp) cost allocation method because the regional method could result in a new PTO being allocated costs twice for the same facility, once through the ITC process prior to joining the ISO and again through the allocation of costs for “new facilities” in joining the ISO.

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.

No comment at this time.

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.

No comment at this time.

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.

No comment at this time.

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.

TransWest agrees with the proposal to implement a cost allocation method that uses the calculated benefit shares for each new regional facility. The postage stamp and/or simple load-ratio approaches used by the other ISOs were necessary to settle existing positions among an established group of respective members and states. The other ISOs and their predecessors (*e.g.*, tight power pools) have had stable memberships for decades and a shared experience in developing regional transmission assets that have led to these blanket allocation methods.

The calculated benefit approach is better for the ISO because the sequence, timing, and ultimate membership group and states that may eventually form the expanded ISO region is unknown at this time. As a result, it would not be possible to reach a workable allocation (*i.e.* settlement) amongst all potential PTOs that may or may not join the ISO. Once there is stability amongst the membership and states involved in the expanded ISO region, cost allocation mechanisms that incorporate fixed allocations amongst members will be possible and should be considered at that time.

The calculated benefit approach will allow the costs to be allocated on the basis of the discrete benefits that new regional facilities offer. This method is consistent with the FERC Order No. 1000 principles of cost allocation that will be employed both prior to and after the potential expansion of the ISO. The Interregional Transmission Coordination process and the ISO's integrated Transmission Planning Process with any expanded region should derive similar results.

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 provision is reasonable only if the allocation method follows the principles in FERC Order No. 1000. ISO expansion could be significantly constrained if the ISO decides to allocate cost shares through some form of blanket methodology (*e.g.*, each new PTO "must" be allocated shares of such costs).

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 re-calculation of benefits for any “new facilities” would place quite an administrative burden on the ISO, the PTOs, and stakeholders. It also would put any transmission investment and PTO in a state of uncertainty that would likely limit investment. Generally, transmission investments take five to ten years to develop and are designed to operate for at least four to five decades. Consequently, long term transmission investment decisions should be based on a long term (*e.g.*, multiple decades) assessment of needs, market changes, and network topology changes.

TransWest agrees that the benefits of new facilities should be reviewed and potentially re-calculated if and when new members wish to join. In addition, any transmission network topology change would be reviewed in the expanded Transmission Planning Process. The impact of this type of network change should be considered as part of the assessment of the topology change.

The ISO’s rationale for an annual re-calculation of benefits seems to be based on the PJM’s solution-based distribution factor allocation methodology (“DFAX”) approach for reliability projects and potential changes in power flows. TransWest believes that long term transmission investment decisions and cost allocation methods should not be based on the narrow and short term assessments used in the DFAX methodology.

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).

No comment at this time.

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.

TransWest recommends that all benefits for new facilities be converted to quantitative economic factors rather than qualitative factors. These policy goals could be converted to quantitative factors by employing the ISO’s Transmission Economic Assessment Methodology (“TEAM”), and focusing on alternative approaches (*i.e.* solutions) to meeting reliability, economic, and public policy needs. Consolidating all benefits into a single set of quantitative metrics will allow for a more complete examination of the multiple benefits that come from investments in the regional grid and the allocation of costs for these investments.

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.

TransWest supports the proposal to allocate 100 percent of the cost of each new regional facility based on a benefits calculation for that facility.

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.

TransWest does not support the DFAX method for determining benefit shares. TransWest believes that it is highly unlikely that regional “new facilities” will be built solely to meet reliability needs. Rather, regional “new facilities” will more likely be built primarily for broader market economic needs, and will also provide reliability as an ancillary benefit. If reliability is the sole driver for a particular transmission solution, typically there is a non-transmission solution that can be compared on an economic basis (e.g., new generation, reliability must run contracts). Alternatively, using an economic approach to reliability will allow for a more transparent allocation of reliability benefits along with other benefits.

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.

TransWest does not believe that the ISO’s TEAM is limited to production costs. For example, in evaluating the Colorado River to Delaney project and the Eldorado to Harry Allen project, the ISO recently used the TEAM to include both production costs and other costs (e.g., RA capacity costs). TransWest believes the TPP TEAM should be modified to include the potential energy benefits associated with providing transmission capacity to access lower cost renewable energy resources.

NREL conducted a study in 2014 using the TEAM to analyze whether investment in transmission to access remote resources provides sufficient benefits.¹ The NREL Study used the CPUC’s RPS Calculator as the starting point. The use of the CPUC’s RPS Calculator in the NREL study is similar to how E3 used the RPS Calculator in the ISO

¹ National Renewable Energy Laboratory, *California-Wyoming Grid Integration Study Phase I—Economic Analysis*, March 2014, (“NREL Study”) available at: <http://www.nrel.gov/docs/fy14osti/61192.pdf>

and PacifiCorp ISO Integration Benefits Study (Integration Study).² The NREL Study used the TEAM to develop a benefit-to-cost ratio metric for the potential investment in transmission, and concluded that the resource benefits greatly exceeded the transmission investment costs.

Production costs should be used to inform the overall benefit shares. However, since production costs only capture the variable operating costs to run generators, non-production energy costs, perhaps from the RPS Calculator, need to be considered when analyzing transmission projects to access renewable resources. Most renewable resources (e.g., PV solar, wind, and small hydro) have no to very low variable operating costs. When comparing a base case to an investment case to access renewable resources, differences in production costs will not inform the potential difference in energy costs.

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.

See TransWest's response to Question 13 above. In addition, TransWest notes that the ISO proposes to use the TEAM within the Clean Energy and Pollution Act Senate Bill SB 350 Study ("SB 350 Study") to identify benefits to California consumers.³ TransWest agrees with the use of TEAM for the SB 350 Study, and strongly recommends that the ISO use the TEAM approach for analyzing transmission in future TPPs. TransWest understands that the use of the TEAM in the SB 350 Study will be limited by the assumption that California consumers would pay 100% of the costs for all new facilities needed to comply with California's renewable energy policy. While this limitation makes sense in the SB 350 Study, it does not make sense in the TPP where the ISO can conduct a more comprehensive assessment. In addition, TransWest believes the TPP TEAM should be modified to include the potential energy benefits associated with providing transmission capacity to access lower cost renewable energy resources.

² Energy+Environmental Economics, Regional Coordination in the West: Benefits of PacifiCorp and California ISO Integration, October 2015, available at: <http://www.caiso.com/Documents/StudyBenefits-PacifiCorp-ISOIntegration.pdf>

³ CAISO, Clean Energy and Pollution Reduction Act Senate Bill SB350 Study, Stakeholder Comment and ISO Responses from February 8, 2016 Study Proposal, March 18, 2016, available at: http://www.caiso.com/Documents/Comments-Responses-CleanEnergy-PollutionReductionActSenateBill350Study-Feb8_2016.pdf

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.

Most new facilities, particularly facilities that increase the transmission capacity between sub-regions, will provide multiple benefits beyond any single purpose. For example, the ISO's Integration Study found multiple benefits (*e.g.*, unit commitment efficiency, lower peak capacity needs, efficient over-generation management, and resource procurement savings) to both PacifiCorp and the ISO from the existing capacity between the balancing areas. Any new capacity between the balancing areas and/or sub-regions of an expanded ISO will likely increase these same benefits amongst the sub-regions. To the extent that a new facility is considered that would only meet a single state's public policy requirement, the FERC Order No. 1000 cost allocation principles would indicate that only that state would receive benefits and therefore cost allocations.

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.

TransWest supports the approach to use the TEAM, as modified to include the potential energy benefits associated with providing transmission capacity to access lower cost renewable energy resources, to examine and assess all the potential benefits for each new regional facility.

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.

The BAMx proposal would require an extensive change to the existing tariff and transmission cost allocation model employed by the ISO to keep both existing and new market participants on a level playing field. Without understanding all of the rationale and ramifications of the BAMx proposal, the scope and complexity of the proposal appears to exceed the ISO's stated intent to expand regionally without substantially altering the market structures in the existing ISO footprint.

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

TransWest requests that the ISO coordinate the methodologies used for benefit assessments and cost allocation among the current TPP, the Interregional Transmission Coordination process, and the potential expanded TPP. In general, the same methodologies should be applicable regardless of the parties participating, the projects being reviewed, or investment decisions considered. There is the potential for different transmission planning criteria to be used under different market constructs (*e.g.*, the deliverability criteria for renewable resources between sub-regions), but changes in criteria should be easily addressed within a common methodology for assessing regional and/or sub-regional benefits among transmission entities.