Stakeholder Comments Template

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

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Western Resource Advocates, NW Energy Coalition, Western Grid Group, Utah Clean Energy, and the Natural Resources Defense Council appreciate the opportunity to provide the following response to the "Transmission Access Charge Options for Integrating New Participating Transmission Owners, Second-Revised Straw Proposal."

Our comments support most aspects of this proposal. We support, in particular, the default cost allocation methodology; it is well considered and responsive to stakeholder comments. We raise a jurisdictional concern with the definition of "existing resources." Finally, we request additional information regarding the EAC proposal.

Second Revised Straw Proposal

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

   We support these provisions as consistent with the beneficiary-pays principle. If an entity is embedded within or electrically integrated with an existing subregion, it uses the subregion's transmission system to serve its load and should therefore share in supporting these costs.

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 subregion. 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.

We support the definition of "embedded." We further support determining whether a new PTO is "electrically integrated" on a case-by-case basis. This approach provides all affected parties with the opportunity to develop shared information and build consensus.

We support using specified criteria, such as the proportion of the new PTO's annual and peak load served over the facilities of the existing subregions, as well as the criteria established in the tariff to determine a new Integrated Balancing Authority Area, in determining whether a new PTO is electrically integrated with the existing subregion. The tariff criteria appear relevant and have been previously vetted and agreed upon.

We recommend the CAISO provide detailed criteria for considering whether a new PTO is electrically integrated in the next revision.

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.

   We support the proposed definition for new facilities. We agree that to be considered "new" a project should be identified as needed through the regional ISO (RSO) Transmission Planning Process (TPP). The TPP must be open, transparent, and include a meaningful stakeholder process.

   We further support the clarification that projects that have previously been under review as potential interregional projects should be eligible for cost allocation as new facilities if they meet transmission needs identified through the integrated TPP. Costs would be spread commensurate with benefits,[1] and the risk to any customer group that it would pay costs in excess of benefits would be minimized.

4. 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."

   We support the proposal to define as "existing" all facilities placed under the operational control of the expanded ISO that do not fit the definition of "new," with the understanding that the cost recovery of any facility added post-implementation is considered under the regulatory framework under which it was originally developed. The definition of "existing" in combination with the definition of "new" makes clear that the costs of any project placed

[1] Cost would be spread consistent with either the default method currently under development or an alternative method approved by a Western States Committee that is being considered as part of RSO governance development.

into service that has not been selected as meeting an identified transmission need through the RSO TPP will become part of the subregional TAC to be collected from the customers of that subregion.

This definition is an improvement over the previous definition in that it removes any doubt regarding what constitutes "new facilities" and what constitutes "existing facilities." One issue that arises from the definition, however, is the role of states in reviewing "existing facilities" that remain in development and/or construction after implementation of an RSO. For example, segments of the Gateway Energy Project have been under development for some time. Throughout this time, states have had the expectation that if PacifiCorp constructed the projects, they would review Gateway investments for prudence via state rate proceedings. If PacifiCorp joins an RSO before the Gateway segments complete construction, and if PacifiCorp opts to seek cost recovery of these facilities as "existing facilities," states must retain the ability to review the prudence of these investments.

PacifiCorp operates a single system to serve customers in six states using resources located in eight. Transmission additions are considered as part of PacifiCorp's system-wide integrated resource planning process. In most states consideration of the IRP undergoes a review or "acknowledgment" process in integrated resource planning, while cost recovery is considered in a rate case proceeding.[2]

Where state review does not directly determine need (e.g. for states in which a transmission asset is not physically located), including the costs of new facilities in a subregion's TAC as "existing" after RSO implementation, has the potential to undermine states' role in transmission development.

We urge CAISO to make clear in a Transition Agreement or otherwise that the remaining five segments of Gateway have not been approved by all six states with regulatory authority over PacifiCorp. Therefore, if treated as "existing facilities" they remain subject to state prudence review.

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

   We continue to support a license plate approach for recovering the costs of existing transmission.

6. <u>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 subregion. Please comment on these uses of the TEAM.</u>

[2] As stated in the Utah Commission's 2015 IRP order "[a]cknowledgment of an IRP means it substantially complies with the regulatory requirements of the planning process, but conveys no sense of regulatory approval of any specific PacifiCorp resource acquisition decision or strategy for meeting obligations; PacifiCorp management retains responsibility for its resource acquisition decisions." (Public Service Commission of Utah, Docket No. 15-035-04, January 8, 2016, p. 9.)

Given our current limited understanding of TEAM, we do not oppose using TEAM to identify regional and subregional benefits. We look forward to participating in the more in-depth review of the TEAM methodology that CAISO plans to host November 16.

7. For a reliability project that is narrowly specified as the more efficient or cost-effective solution to a reliability need within a subregion, 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 subregion with the driving reliability need, regardless of any incidental benefits that may accrue to other subregions. Please comment on this provision.

   We support this provision as consistent with the beneficiary-pays principle.

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

   We support this provision as consistent with the beneficiary-pays principle.

9. For a purely economic project with benefit-cost ratio (BCR) > 1, cost shares will be allocated to subregions 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.

   We support this provision as consistent with the beneficiary-pays principle.

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 subregion, then allocate incremental project cost to subregions 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.

    Both the "driver-first" approach and the "total benefits" approach to cost allocation are consistent with a beneficiary-pays principle, and we support either. However, we believe the driver-first approach is likely preferred. This approach allocates more of the total cost to the subregion with the original need.

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

    We support this approach as consistent with the beneficiary-pays principle, and we agree with CAISO that this is the only workable solution, since determining "avoided cost" as is done in number 10 above is not practically feasible. The proposed approach in a Scenario 1–type situation appears both principled and fair.

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

    Again, we support the proposed approach in Scenario 2 as consistent with a beneficiary-pays principle. In particular we support using internal load to determine how to apportion the remaining incremental cost to those subregions who drove the need for the project; use of internal load to determine cost-share is consistent with industry apportioning practices. We don't oppose using the project in-service year to fix cost-shares; this is consistent with CAISO's current proposal to fix benefits and cost shares for subregions at the time they join. (See number 14 below.)

13. <u>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 subregion, with exceptions only for upgrades to existing facilities as stated in ISO tariff section 24.5.1. Please comment on this proposal.</u>

    We support competitive solicitation with the exceptions noted.

14. <u>The ISO proposes to drop the earlier proposal to recalculate benefit and cost shares for subregions 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>

    We previously supported CAISO's two previous proposals to reallocate benefits and cost shares to subregions (annually, as proposed in the Straw Proposal; or as system topology changed, as proposed in the Revised Straw Proposal) because we believe that current cost causation is a better principle to base cost allocation upon than historical cost causation. However, we understand the desire by many other stakeholders for cost certainty, and we can support the new proposal that is consistent with the many comments received. We appreciate CAISO's responsiveness to stakeholder input.[3]

    We also support CAISO's decision to treat as "new" in the determination of each PTO's TAC, only those facilities that were planned and added after the PTO joined. While we understand the ISO's concern that this could create perverse timing incentives, we agree with those who believe the current proposal is more justifiable over time.

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 subregional TAC rates. Please comment on this proposal.</u>

    We can generally support this proposal. However we think additional information would help the discussion.

[3] CAISO initially proposed annual recalculation. In response to comments, it later proposed tying recalculation to changes in system topology or the elapse of five years.

We support the concept of a single export rate, subject to further definition. We agree that avoiding distorted dispatch and congestion that could result from the use of different export rates in different parts of the footprint is a sound goal, and a single export rate helps assure distortions do not arise from differences in export charges at different interties.

We are less clear regarding the CAISO's proposal to calculate the EAC rate as the load-weighted average of the subregional TAC rates.

CAISO supports using a load-weighted average for the EAC rate as best achieving the goal of balancing the recovery of Transmission Revenue Requirement between internal load and exports. While we think this could be an important consideration, we would like to better understand why CAISO has identified this balance as an important criterion. If CAISO forwards this aspect of the proposal to the next revision, please more fully justify the goal of maintaining balance between internal load and exports in TRR cost recovery.

An alternative principle or criterion may be to select an EAC rate that maintains the status quo. Does CAISO know whether TRR cost recovery is currently balanced between internal load and exports for current PTO's and/or PacifiCorp and other prospective PTOs? Is it possible to develop information that could address, in broad strokes, how cost responsibility may shift under this proposal for a handful of utilities – including PacifiCorp? If this proposal shifts TRR cost recovery from exports to internal load, it will add costs that must be considered in any prospective PTO's net benefit study. Understanding the potential for cost shifts would provide useful information.

Having listened to the October 7 discussion, it seems a third, and competing, principle may be to use the EAC rate to influence dispatch patterns in favor of a future larger footprint. Not only does the EAC rate influence the balance in TRR cost recovery between internal load and exports, it also influences the volume of exports, dispatch patterns, and patterns of congestion – with lower rates enhancing exports (and shifting TRR cost recovery to internal load) and higher rates having a dampening effect (and shifting TRR cost recovery to exports). To what extent should this effect on export volume and dispatch be considered in determining the EAC rate?

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

We support this proposal. Charging non-PTO's the same rate as PTOs to use the subregional transmission system is consistent with the beneficiary-pays principle. Further, under this proposal, non PTO entities will continue to pay something akin to what they currently pay. If the EAC (determined as a load-weighted average of the subregional TAC rates) were applied instead, non-PTO entities in the CAISO subregion would pay less than they do currently (since the EAC is less than the CAISO TAC) and non-PTOs in PacifiCorp's footprint would pay more (since the EAC is more than the PacifiCorp TAC). Charging similarly situated entities the same rate to use the transmission system appears fair and is in keeping with the beneficiary-pays principle.

17. <u>The ISO proposes to allocate EAC revenues to each subregion 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 subregion in proportion to its quantity</u>

of exports times its subregional TAC rate. Please comment on these two approaches for EAC revenue allocation, and suggest other approaches you think would be better and explain why.

We recommend a method be developed that would as closely maintain current revenue credit allocations as is possible – recognizing that PacifiCorp's volume of exports will decline. It would seem that maintaining balance between internal load and exports could be inconsequential compared to the shifts that could occur through reallocation of revenue credits from the status quo.

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

Thank you for the opportunity to provide input.