Stakeholder Comments Template

Transmission Access Charge Options

May 20, 2016 Revised Straw Proposal

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

Revised Straw Proposal

1. <u>In the previous straw proposal the ISO proposed to define sub-regions, with the current ISO footprint as one sub-region and each PTO that subsequently joins as another sub-region. Now the ISO is proposing an exception 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. Please comment on whether such an embedded/integrated new PTO should become a new sub-region, be given a one-time choice, or whether another approach would be preferable.</u>

   Allowing a new PTO embedded within or electrically integrated with an existing subregion to have a one-time choice to join the existing subregion or become a separate subregion appears sensible to the extent that significant cost shifts to the existing PTO do not arise. A small PTO joining a large subregion would have minimal effect, while a larger PTO in a smaller subregion might. In such an event, mutually satisfactory arrangements between the new PTO and the PTO(s) in the existing subregion would be needed.

2. <u>The proposal defines "existing facilities" as transmission assets in-service or planned in the entity's own planning process for its own service area or planning region, and that have either begun construction or have committed funding. The ISO proposed criteria for what</u>

constitutes a facility having "begun construction" and "committed funding" and for how these criteria would be demonstrated. Please comment on these criteria and their use for this purpose.

We support the refinement of the definition but believe the new definition is insufficient to resolve the tension that underlies the definitional issue. To address the tension, we think PacifiCorp needs to make clear its intentions with how it proposes to treat the remaining segments of the Energy Gateway Transmission Expansion project (Gateway) that are not yet "existing" under the proposed definition but could become so prior to it joining as a new PTO. By making clear its intentions, parties can better assess the potential TAC consequences. See number 13.

3. The proposal defines "new facilities" as transmission projects planned and approved in an expanded TPP for the expanded BAA. Projects that are under review as potential "inter-regional" projects prior to the new PTO joining may be considered as "new" as long as the "existing" criteria are not met. Please comment on the potential inclusion of candidate inter-regional projects in the new facilities category.

   We support the refinement of the definition but believe the new definition is insufficient to resolve the tension that underlies the definitional issue. To address the tension, we think PacifiCorp needs to make clear its intentions with how it proposes to treat the remaining segments of Gateway that are not yet "existing" under the proposed definition but could become so prior to it joining as a new PTO. By making clear its intentions, parties can better assess the potential TAC consequences. See number 13.

4. Consistent with the previous straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional "license plate" TAC rates. The ISO's decision to retain the previous proposal, rather than develop a new proposal for allocating some costs of existing facilities across the sub-regions, was based on the importance of retaining the principle that only new facilities planned through the expanded TPP should be eligible for region-wide cost allocation. Please comment on the license plate approach and the logic for retaining that approach, as explained here and in the revised straw proposal.

   We continue to support a license plate approach for the recovery of existing transmission revenue requirement.

5. "New facilities" will undergo a two-step process to determine eligibility for regional cost allocation. First, the project must be planned and approved through the integrated TPP for the expanded BAA. Second, the project must meet at least one of three criteria to be a "new regional facility" eligible for region-wide cost allocation. Please comment on the two-step process to determine "new facilities."

   We continue to support the two-step process proposed for determining eligibility for regional cost allocation for new transmission undertaken in an open and transparent manner. In addition, we support the reduction in the first criterion of the second step from greater than 300 kV to greater than 200 kV.

6. The proposal would allocate the cost of new reliability projects approved solely to meet an identified reliability need within a sub-region entirely to that sub-region. Please comment on the proposed cost allocation for new reliability projects.

   Given the topology currently under consideration, this approach appears likely to be acceptable to participants. However, this approach could be problematic if subregions are small, because the benefits of a reliability investment in one small subregion are more likely to spill over to a neighboring small subregion. In this limited circumstance, some exception may be needed to the rule that the cost of reliability projects stay in the subregion where the project is located.

   More importantly, the proposed method for allocating the cost of reliability projects should be executed within the broader principle that the beneficiary pays. We continue to support a beneficiary pays principle and to support the use of a method such as TEAM to evaluate the benefits and allocate the costs for all projects. (See our original comments, the associated diagram, and our response to number nine below.) Only if a project does not meet an established cost-benefit threshold but is needed to maintain the ability of the RSO to meet reliability standards would we support allocating costs using a methodology other than a TEAM-like methodology.

   In our previous comments we supported the use of a power flow method such as DFAX to allocate the costs of reliability projects with an associated flow, and we still support a power flow approach even though the majority of those who commented did not.[1]

   It appears from our review of the comments on the Straw Proposal that the negative response is an unfortunate consequence of the treatment of the issue in the Straw Proposal that identified the method as litigious without also explaining the issues litigated. Few stakeholders were familiar with the method and relied on the Straw Proposal for information.

   In our understanding, use of a power flow analysis to determine benefits was not a litigated issue. The litigation associated with DFAX stemmed from two other concerns: (1) the allocation of 50% of the project cost to all participants regardless of benefit; and (2) improperly applying DFAX which is a flow-based approach to a project that had no associated flow. If stakeholders had better understood the reasons for the litigation, it seems likely the responses would have been more supportive.

   We encourage CAISO to consider revisiting the use of a power flow analysis to determine the benefits of reliability projects in its next revision.

7. The ISO proposes that a body of state regulators, to be established as part of the new regional governance structure, would make decisions to build and decide allocation of costs for new economic and policy-driven facilities. Please comment on this proposal.

[1] An alternative method is needed for reliability projects with no associated flow—either direct assignment or system assignment.

We support delegating to a regulatory body, to be established as part of the new regional governance structure, the decisions to build and allocate costs for projects not needed to maintain the RSO's ability to meet reliability standards—with the provision that a backstop is provided in the tariff as conceived in number nine below. A backstop can address transitional matters as well as provide authority in the event the regulatory body is unable to function effectively.

8. Competitive solicitation to select the entity to build and own a new transmission project would apply to: (a) economic and policy-driven transmission projects approved by the body of state regulators for regional cost allocation, and (b) new projects whose costs are allocated entirely to one sub-region but are paid for by the ratepayers of more than one PTO within that sub-region. The ISO has determined that this policy is consistent with FERC Order 1000 regarding competitive solicitation. Please comment on this proposal.

   We support the competitive solicitation policy proposed.

   In addition, we would like to better understand the legal reasoning relied upon in determining consistency with Order 1000. Please support the statement "the ISO has determined that this policy is consistent with FERC Order 1000 regarding competitive solicitation" with references in the next revision or in response to comments.

9. FERC Order 1000 requires that the ISO establish in its tariff "back-stop" provisions for approving and determining cost allocation for needed transmission projects, in the event that the body of state regulators is unable to decide on a needed project. The revised straw proposal indicated that the ISO would propose such provisions in the next proposal for this initiative. Please offer comments and your suggestions for what such provisions should be.

   As discussed above we support establishing a backstop provision in the tariff for approving needed transmission projects[2] and determining the allocation of project costs in the event that a body of state regulators is unable to function effectively. We further support the CAISO presenting a proposal in the next revision.

   Key points from our previous response to the Straw Proposal that addressed cost allocation methodology include:

   - Application of a beneficiary pays principle;
   - Use of TEAM or a TEAM-like method to determine the benefits and allocate the costs of all projects to beneficiaries, regardless of project purpose;
   - Only in the event that the benefit to cost ratio of a project does not meet an established threshold for regional cost allocation would alternative allocation methods be considered.

[2] "Needed" transmission projects are established through the transparent and open Transmission Planning Process. To be "needed" projects should be selected through a sound planning process that meets Order 1000 requirements and all non-wires alternatives should be fully considered.

- If a project does not meet an established benefit to cost ratio threshold but is needed to (1) support reliability or (2) meet public policy objectives, an alternative cost allocation methodology would be applied.

In addition to these previous points we request the CAISO clarify the process used will be open and transparent.

10. The proposal indicated that the ISO would establish a formula for a single export rate (wheeling access charge or WAC) for the expanded region, and this rate would be a load-weighted average of all sub-regional license plate rates plus any region-wide postage stamp rate. Please comment on this proposal.

    We don't have sufficient information to comment. Please provide additional information in the next revision.

11. The ISO proposed to retain the provision that once the BAA was expanded and a new TPP instituted for the expanded BAA, any subsequent PTO joining at a later date could be responsible for a cost share of new regional facilities approved in the expanded TPP, based on the benefits the new PTO receives from each such facility. Please comment on this proposal.

    We continue to support this aspect of the proposal.

12. The ISO dropped the proposal to recalculate sub-regional benefit shares for new regional facilities every year, and instead proposed to recalculate only when a new PTO joins the expanded BAA and creates a new sub-region, but at least once every five years. Please comment on this proposal.

    We previously supported undertaking an annual review, to the extent that significant year-to-year cost shifts could be limited. However, we can support a less frequent review, and we agree that recalculating when a new PTO joins (or also leaves), but at least every five years, is a reasonable approach that lies between annual recalculations and permanent allocations. In addition we request the CAISO make clear that public notice will be provided anytime a recalculation is undertaken.

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

    Energy Gateway Transmission Expansion Project

    We appreciate CAISO's efforts to refine the definition of existing transmission and reduce the gray area in the proposal between existing and new. The revised proposal is a step in the right direction. However, we also believe these distinctions will likely remain contentious until PacifiCorp makes clear its intentions with regard to the segments of Gateway that are not yet existing, given the proposed definitions, but could become so prior to PacifiCorp joining as a new PTO.

As we understand the issue, both California and PacifiCorp stakeholders question from whom the costs should be recovered. The principle that those for whom transmission was planned should pay its costs has been used to support the TAC proposal to use a license plate approach for allocating the cost of existing transmission. Many California stakeholders appear to consider Gateway to have been planned for PacifiCorp customers, and believe its costs should be recovered from PacifiCorp customers. On the other hand, not all stakeholders from PacifiCorp states are convinced that these lines are needed to serve them. Gateway was initially conceived to serve a larger region with costs to be recovered through subscription from other utilities.[3] And, some of these segments have not been supported by IRP modeling.

PacifiCorp needs to address the issue of Gateway sooner rather than later and leave no doubt regarding its intentions.[4] If PacifiCorp intends to begin construction or commit funding such that these facilities would be treated as part of PacifiCorp's existing transmission facilities, this needs to be made known and the costs included in its state level cost and benefit analysis, so PacifiCorp states can consider the full cost consequence of PacifiCorp joining the RSO as a new PTO.

If PacifiCorp instead intends to offer the Gateway segments as solutions in the RSO transmission planning process, this too needs to be made known, as well as the details of any transition agreement. This will assist all stakeholders in better understanding the likely TAC impacts—or at least provide parties an opportunity to develop meaningful bookend analyses.[5]

Using the proposed definition for existing resources, we request CAISO include in the next revision the segments of Gateway that would be considered "existing".

[3] See: Hamilton, R., Lehr, R., Olsen, D., Nielsen, J., Acker, T. Milligan, M. Geller, H. "Integrating Wind Into Transmission Planning: The Rocky Mountain Area Transmission Plan (RMATS)," NREL CP-500-35969, March, 2004. At: http://www.nrel.gov/docs/fy04osti/35969.pdf

[4] In our view, PacifiCorp faces cost-recovery risk either way. If it "commits funding" or "begins construction" prior to joining as a new PTO, it runs the risk that the costs of these facilities could be challenged successfully at the state level and some significant portion might not be recovered. If it elects to offer Gateway segments into the RSO transmission planning process, their selection and all of PacifiCorp's development costs could be at risk.

[5] Until a cost allocation methodology is fully developed and a transmission planning process cycle completed, the selection of Gateway segments and their cost consequences will likely remain an issue.