

Stakeholder Comments Template

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the September 30, 2016 second revised straw proposal. The second revised 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 **October 28, 2016**.

Second Revised Straw Proposal

The Bay Area Municipal Transmission group (BAMx) appreciates this opportunity to provide comments on the California Independent System Operator's (CAISO) Second Revised Straw Proposal (SRSP) on the Transmission Access Charge (TAC) Options for Integrating New Participating Transmission Owners (PTO) dated September 30, 2016, followed by a stakeholder meeting held on October 7, 2016. BAMx is appreciative that the CAISO has addressed and provided clarification on some of our prior concerns with the SRSP, but we are disappointed that the CAISO has not responded to the BAMx comments regarding the need to evaluate the benefits of existing transmission infrastructure realized across sub-regions and, if benefits are identified, the consideration of alternatives for allocating the costs associated with them. The TAC methodology should not unreasonably burden customers within the proposed CAISO sub-region with high costs of existing and new facilities without aligning costs and benefits. Fundamentally, BAMx supports the concept of beneficiary-based allocations of the costs of both

¹ BAMx consists of City of Palo Alto Utilities and City of Santa Clara's Silicon Valley Power.

existing and new transmission across and within all sub-regions, the goal being to provide an equitable allocation of costs for all entities within the expanded ISO.²

The SRSP continues to consider cost allocation only to the granularity of the sub-regions. The SRSP is missing a linkage between the planning information provided by Local Regulatory Authorities (LRAs) and allocation of costs resulting from the projects adopted in the Transmission Planning Process (TPP) that are needed to implement the LRAs' plans. This linkage is critical for ensuring that cost allocation is consistent with cost causation. Cost allocation by the CAISO should be more discerning with respect to cost causation, particularly in the case of policy-driven projects that are needed to implement the resource plans approved by LRAs that comprise only a portion of a sub-region.

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

No comments at this time.

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 sub-region. 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.

No comments at this time.

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.

Transmission projects that are under review as potential "inter-regional" projects prior to the new PTO joining, should have to go through another thorough review and seek approval under the expanded TPP. Also, this should be a minimum requirement and not a guarantee that the project will be considered.

² BAMx Comments on the CAISO Straw Proposal and Benefits Assessment Methodology, p.4., <http://www.caiso.com/Documents/BAMxComments-TACOptions-StrawProposal-BenefitsAssessmentMethodologies.pdf>

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.”

No comments at this time.

5. Consistent with the previous revised straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional “license plate” TAC rates. The ISO has proposed that each sub-region’s existing facilities comprise “legacy” facilities for which subsequent new sub-regions have no cost responsibility. Please comment on this aspect of the proposal.

BAMx believes that a license plate approach could be equitable, but only if the costs of new facilities are allocated

- i. on the same (license-plate) basis; or
- ii. only to the beneficiaries of those facilities; that is, allocating the costs of policy-driven facilities to the specific LSEs/LRAs contracting with the generation resources that are dependent on the policy-driven facilities.

Although SRSP provides more details on how the cost of new facilities would be allocated, as we elaborate further below, BAMx is not convinced that the license-plate approach for existing facilities is equitable given the remaining uncertainty of cost allocation of new facilities.

6. 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 sub-region. Please comment on these uses of the TEAM.

BAMx supports studying the use of an economic production cost approach such as the key elements of TEAM for determining benefit shares associated with an economic transmission project. In the current initiative, BAMx has indicated several concerns of applying the decade old TEAM methodology and has urged the CAISO for the need to review and revise TEAM via a separate comprehensive stakeholder initiative.³ Any

³ See the BAMx comments on the Transmission Access Charge Options February 10, 2016 Straw Proposal, dated April 1, 2016, pp. 6-8. Also see the SVP comments on Transmission Access Charge Options August 11, 2016 Stakeholder Working Group Meeting, dated August 25, 2016, pp. 2-3. BAMx acknowledges that the CAISO’s October 28, 2016 market notice indicates CAISO will provide an overview of the TEAM process during the November 16, 2016, Transmission Planning Process stakeholder meeting, but the notice indicates the meeting will

endorsement of economic assessment of transmission projects in the remaining portion of these comments assumes that BAMx concerns related to the existing TEAM are adequately addressed.

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

BAMx could support this element of SRSP, but is concerned about the lack of details on the application of the CAISO's TPP for the expanded BAA that would presumably make the determination of a reliability project primarily driven by the reliability needs of one particular sub-region. The CAISO needs to accelerate efforts to fully define what the TPP would be for the expanded BAA. See our response to Q.18 below.

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

It is not sufficient to allocate policy-driven project costs to all LRAs within a sub-region in cases where the LRA-approved resource plans that result in the need for the project are not uniform. In this case, the costs should be allocated to the LRAs whose resource plans resulted in the need for the project. The regional TPP needs to consider the potentially different reasons for proposing policy-driven upgrades. For California, policy-driven upgrades have included both renewable resource portfolios and Once-Through-Cooling mitigation. The expanded ISO may in the future include such areas as Clean Power Plan compliance and coal plant retirements. The regional TPP needs to consider the aggregate LRA procurement plans, and the costs of the policy driven transmission projects should be allocated to the specific entities within a sub-region based on their contribution to the need for the project. Hereafter, any discussion of a policy-driven project assumes a well-defined construct for allocating costs to the specific entities within a sub-region whose resource plans implementing policy mandate(s) are driving the need for a policy-driven project.

provide information about how TEAM works today, and so it is not clear that the stakeholder process will include revisions to that process. The market notice can be accessed here: <http://caisocommunications.com/public/viewmessage/html/36997/7ayu6tbfc5a2944zn5rojtxva0zdg>

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

BAMx would support the CAISO's proposed approach of allocating the costs of a purely economic project, as defined above, to sub-regions in proportion to their benefits assuming that the CAISO performs BCR calculations based upon the updated elements of TEAM approach that are weighed by stakeholders via a separate initiative.

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 sub-region, then allocate incremental project cost to sub-regions 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.

BAMx generally prefers the "driver first" approach over the "total benefits" approach for cost allocation purposes. BAMx reserves the right to provide specific comments on the process involved in identifying the avoided cost of needed transmission and its applicability for purposes of cost allocation to the sub-regions once more details are available.

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

BAMx requests specific real-life examples of policy projects that could provide some insights as to how the CAISO's proposed allocation may work in practice. In principle, BAMx supports the concept of allocating transmission project costs to sub-regions up to the amount of their economic benefits (per an updated TEAM approach) and then allocating remaining costs to specific LRAs within sub-region based on the resource plans that resulted in the needed project.

12. In scenario 2, where a policy project meets the policy needs of more than one sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the relevant sub-regions in

proportion to their internal load for project in-service year. Please comment on this cost allocation approach for scenario 2.

Although BAMx supports the first step in the cost allocation that allocates costs to sub-regions up to the amount of their economic benefits, the second step of allocating remaining costs to the relevant sub-regions in proportion to their internal load is not an equitable solution. Allocation of the remaining policy-driven project cost needs to be based on the LRA-approved procurement plans that lead to the need for the project, rather than on the sub-region's internal load.

13. 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 sub-region, with exceptions only for upgrades to existing facilities as stated in ISO tariff section 24.5.1. Please comment on this proposal.

No comments at this time.

14. The ISO proposes to drop the earlier proposal to recalculate benefit and cost shares for sub-regions 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.

The CAISO has acknowledged that the new provision could incentivize a potential new PTO to postpone joining until existing PTOs approve projects from which it would benefit. However, the CAISO has not demonstrated how the concern associated with the prior provision of it deterring a potential PTO from joining if it faced potential cost share for a project it had no role in planning outweighs the concern associated with the new provision. Consistent with BAMx's opposition to the license-plate treatment for existing facilities, BAMx is opposed to new PTOs/sub-regions getting a free ride from paying for the new facilities from which they would benefit, and which are approved by the Regional ISO, before they join.

15. 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 sub-regional TAC rates. Please comment on this proposal.

BAMx notes that the rationale justifying a single region-wide EAC also justifies a postage stamp TAC rate, rather than the license plate rate proposed for the existing facilities. In the same way that exports are assumed to benefit from the entire expanded ISO grid facilities, deliveries to load within the expanded ISO benefit from all existing facilities. CAISO should explain why exports should be treated on a postage stamp basis, while deliveries to load within the expanded ISO should be treated on a license-plate basis.

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

The current WAC rate paid by non-PTO entities within the CAISO BAA is identical to the TAC rate paid by other loads in the CAISO BAA. BAMx understands that CAISO does not have any intention to alter in any way the existing tariff arrangements affecting current internal non-PTOs as well as their billed quantities presently paying the WAC. In particular, BAMx understands that CAISO proposes to preserve the existing billing methodologies as currently applied to non-PTOs paying the WAC, and that it does not propose to modify the current methodology used for calculating the transmission billing determinants for non-PTO entities. BAMx urges the CAISO to clarify in its next draft final proposal (or a Third Revised Straw Proposal) that it intends to preserve the existing contractual arrangements and billing methodologies that apply to non-PTO entities within the CAISO BAA, and to retain those current practices in the implementation of CAISO's final proposal.

17. The ISO proposes to allocate EAC revenues to each sub-region 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 sub-region in proportion to its quantity of exports times its sub-regional TAC rate. Please comment on these two approaches for EAC revenue allocation, and suggest other approaches you think would be better and explain why.

In addition to the rationale justifying a single region-wide EAC, allocating EAC revenues to each sub-region in proportion to their Transmission Revenue Requirements (TRR) recognizes that the exports are responsible for paying towards the cost, and therefore paying for the TRRs of the PTOs region-wide, and therefore allocating the revenues based on relative sub-regional TRRs appropriately compensates the entities who make their facilities available to support the exports. As BAMx has noted in response to Q. 15, the TRR-weighted EAC revenue allocation is consistent with a postage stamp TAC rate, and the reasons for using the TRR-weighted allocation demonstrate why it is inappropriate to use the license plate rate proposed for the existing facilities – transactions within the region rely on the interconnected grid and should pay a fair share of the entire regional grid.

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

Cost of Existing CAISO Transmission

BAMx continues to recommend an evaluation of the benefits of existing transmission infrastructure realized across sub-regions and, if benefits are identified, the consideration of alternatives for allocating the costs associated with them. Whatever cost allocation for existing facilities is adopted, the CAISO should apply the similar benefits based approaches for allocating the cost of new “regionalized” transmission to allocate the cost

of existing HV facilities across multiple sub-regions. In the past, the CAISO had indicated the lack of ability to analyze the benefits of the CAISO's existing facilities to other regions. However, with some additional resources, BAMx believes that the CAISO should be able to make this determination. Given the potential impact to existing CAISO ratepayers and ratepayers of the expanded ISO going forward, BAMx recommends that the CAISO undertake such an analysis.

Need for a Better Linkage Between Procurement of Resources to Meet Policy Mandates and Allocation of Policy-Driven Transmission Costs

The CAISO has stated that the sub-region whose policy mandate is a driver of the new project should bear the cost responsibility.⁴ The CAISO is assuming that the entire sub-region is uniformly responsible for the costs, but it is really the LRAs that are responsible for approving the resource plans that are needed to implement the policy, and therefore the LRAs should be responsible for the associated costs. A more granular approach is needed to make an allocation of costs driven by policy mandates. BAMx continues to believe that a policy-driven transmission project's costs should be allocated to the LSEs, based on their LRA-approved resource plans implementing policies that drive the need for such transmission as reflected in their contracting for new transmission dependent resources. Please refer to the BAMx⁵ proposed benefits assessment methodology presented at the March 9th workshop, which addresses the CAISO's cost causation concern.⁶ The BAMx-proposed approach provides a more robust and equitable solution at a greater granularity than the CAISO-proposed construct of allocating cost to "sub-regions" with policy mandates. An alternate to BAMx's earlier proposal would be to allocate the new transmission cost to the LRAs (instead of LSEs) within each sub-region and then having LRAs responsible for allocating costs to their jurisdictional entities. As elaborated in the BAMx comments in the current initiative, dated April 1, 2016, unlike TEAM, the BAMx approach meets each of the transmission cost allocation principles identified in the CAISO October 23, 2015 Issue Paper.⁷

Specifically, the CAISO should link the allocation of policy-driven transmission costs through the individual LRA procurement plans within all sub-regions. The CAISO should develop policy-mandated portfolios based on the accumulation of the LRA procurement plans, and then allocate the costs back to the LRAs based on their share of the portfolios. BAMx believes that this approach is crucial for allocating costs to the multiple LRAs within the new PacifiCorp sub-region, and to the multiple LRAs within the CAISO sub-region, since the resource procurement decisions of the LRAs vary dramatically both within and across these sub-regions. This approach has several benefits. First, it streamlines determination of the plausible procurement information from "sub-regions" by linking to the LRA-approved resource plans implementing policy mandates. Second, it provides a linkage between cost causation and cost allocation. Third, it is consistent with the role the CAISO proposes to play under the regionalized Resource Adequacy initiative

⁴ CAISO Transmission Access Charge Options Stakeholder Meeting, October 7, 2016, slide #20.

⁵ BAMx consists of City of Palo Alto Utilities and City of Santa Clara's Silicon Valley Power.

⁶ <http://www.caiso.com/Documents/Presentation-BAMxBenefitsAssessmentMethodologyProposal.pdf>

⁷ BAMx Comments, pp. 9-10.

in terms of gathering the load forecast submitted by LSEs and allocating RA Requirements to LRAs/LSEs. For both TAC cost allocation and Resource Adequacy obligation determination, the CAISO would incorporate the portfolios based upon the LRA procurement plans and would study those portfolios to determine the need for policy-driven transmission and the allocation of RA obligations.⁸

The current CAISO tariff already has provisions for LRAs to participate in the TPP in identifying “policy requirements” and “energy resource areas.” In particular, *Section 24.3.1 Inputs to the Unified Planning Assumptions and Study Plan* states that the CAISO will consider the following in the development of the Unified Planning Assumptions and Study Plan:

- “(g) Policy requirements and directives, as appropriate, including programs initiated by state, federal, municipal and county regulatory agencies;
- (h) Energy Resource Areas or similar resource areas identified by Local Regulatory Authorities;”

Furthermore, the CAISO tariff *Section 24.4.6.6 Policy-Driven Transmission Solutions* includes a discussion on how the CAISO shall evaluate transmission solutions needed to meet state, municipal, county or federal policy requirements or directives. One of the criteria utilized in this process includes

- “(b) the results and identified priorities of the California Public Utilities Commission’s or California Local Regulatory Authorities’ resource planning processes”

BAMx believes that the above-mentioned provisions in the existing CAISO tariff allow for incorporating LRA procurement plans under the expanded ISO to determine the need for policy-driven transmission. This information also should be used to allocate the cost to those LRAs based on the resource plans that include procuring from the Energy Resource Areas driving the need for policy-driven transmission.

Need for Expanded TPP Stakeholder Process

The CAISO needs to accelerate efforts to fully define what the TPP would be for the expanded BAA. Although the CAISO claims that no major changes to its TPP are required as a result of regionalization, we believe that the issues illuminated by this stakeholder process, such as the application of TEAM for regional transmission cost allocation purposes, illustrate that is not the case. As described in our response to question 8, the regional TPP needs to consider the potentially different reasons for proposing policy-driven upgrades. BAMx seeks a commitment from the CAISO on exactly when the stakeholder process for development of the expanded region’s TPP will occur. The CAISO also needs to provide some clarity of whether this stakeholder process will be conducted by the existing ISO process, the Transition Committee, or if that would be left to the Western States Committee (WSC).

⁸ CAISO, Regional Resource Adequacy Second Revised Straw Proposal, May 26, 2016.

Schedule and Need for Further Commenting Opportunities

During the October 7th stakeholder meeting, the CAISO indicated that subsequent activities on this initiative will be announced by market notice in the near future. BAMx urges the CAISO to provide sufficient time to facilitate stakeholder comments - after posting of a draft final proposal (or a Third Revised Straw Proposal) - before any proposal goes to the CAISO Board for its approval.