

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.

NV Energy agrees with the concept of sub-regions as a useful framework for evaluating the relative burden that each newly-integrated PTO should assume with respect to transmission system costs. Distinguishing new entrants in this way is necessary for the purpose of segregating existing system costs and preventing a cost-shift for those existing

facilities. Without this segregation, new entrants cannot realize the value proposition of joining the regional ISO and, consequently, regional expansion of the existing ISO would not occur.

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.

The concept of existing, or legacy, facilities for the purpose of ensuring that a sub-region in the regional ISO continues to own the costs of those facilities is extremely important to the success of regionalization. NV Energy therefore supports the definition of “existing” facilities. It urges this effort to be specific and consistent, however, about both the terminology used, e.g., whether the facilities are “existing” or “legacy,” and about what will qualify as a new facility eligible for regional cost allocation. NV Energy supports the potential for cost-sharing of any line that is approved by the new regional ISO’s transmission planning process as eligible for regional cost allocation if and based on its meeting established and well-defined criteria for that eligibility.

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.

Consistent with its comments above, NV Energy supports maintenance of existing costs within the sub-region bringing those facilities to the integration as essential to progressing the efforts of regionalization.

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.
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.

NV Energy generally supports this criteria as facilitating the identification of potential new facilities that would offer regional benefits and therefore should be studied in the regional transmission planning process. NV Energy would not foreclose studying lower-voltage lines that supplement or otherwise maximize the potential of a new transmission that is found to meet a regional need or bring regional benefits. For example, a lower voltage line might connect needed generation to the larger regional line, or perhaps build out transmission in a particular area to ensure it can absorb the energy delivered by the new regional line. In other words, NV Energy supports definition and specificity in what qualifies for regional cost allocation, but seeks to avoid too narrow a definition that forecloses consideration of all relevant facilities.

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.

The most critical outcome of this process is achieving the right balance between creating a regional service territory that recognizes the value proposition of operating as an integrated region, and allocating costs so as not to be inhibitive to new entrants. New transmission projects that benefit the entire region, and the costs they represent, should be evaluated to understand how each sub-region benefits from the project relative to the other sub-region(s). Once those relative benefits are reasonably understood, the cost allocation should seek to ensure that each sub-region's allocation of the costs maintain the value proposition of the project for that sub-region. Beyond a certain threshold, however, the allocation must recognize that a pure "benefits" assessment could understate the value to a particular sub-region with the result that the new entrant sub-region is assessed costs that are too high to justify joining the regional ISO.

NV Energy therefore supports an approach to cost allocation that uses both methods of attempting to determine relative benefits and also spreading costs to the entire region based on the nature of the project. How these two principles are emphasized in the cost allocation should be dependent on the nature of the objectives driving the project – purely economic projects may, for example, more heavily emphasize tracing the benefits. A reliability project that predominantly serves a subset of sub-regions but has a more speculative future benefit for other sub-regions may call for a percentage allocation to those with the near term benefit with minor cost spreading to the other sub-regions. In short, a sub-region may realize cost savings as a result of a regional project against the counterfactual of no new project or alternative projects; the cost allocation should not

seek to ensure that the sub-region capture 100% of its potential savings if doing so will create a prohibitive cost burden for the other sub-region(s). Such costs shifts that occlude the benefits to new entrants will eliminate the new entrants' incentive to join the regional ISO.

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.

NV Energy supports this approach. New entrants should not be made to pay for new regional facilities that offer no benefits to the new entrant. Presumably, new regional facilities may represent some portion of the incentive for new entrants to join the regional ISO, and to the extent the new entrant realizes value from the facility it should assume some of the costs, as well. Consistent with comments above, the cost allocation for the new entrant should carefully consider, in addition to relative benefits among sub-regions, whether the full cost that may be justified by a benefits study should be fully applied to the new entrant if doing so eclipses the value proposition of the new entrant's joining the ISO.

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.

Consistent with other aspects of the straw proposal, it is appropriate to revisit cost allocation upon entry of a new sub-region into the regional ISO. Because the timing of new entrants is unknown, NV Energy agrees that it is also appropriate to regularly revisit system cost allocation. Annual review and recalculation may, however, introduce unpredictability into each PTO's budgeting and also represent an unnecessarily high resource commitment to the issue. Thus, regular review perhaps should be premised on both a new entrant joining or a longer interval, whichever comes first.

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).

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.

NV Energy agrees that different project drivers warrant a different approach. Purely economic projects lend themselves to benefits tracing more easily than projects with intangible benefits, such as policy-based projects.

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.

As stated above, NV Energy supports a hybrid approach to cost allocation that references the nature of the project under consideration. As FERC noted in its order approving SPP's method for cost allocation, a method wholly dependent on achieving perfect benefits tracing to a particular sub-region or zone would defeat the purpose of regionalization. NV Energy is also concerned that such a method would create prohibitive costs that would act as a barrier to new entry, in which case existing PTOs would realize none of the benefit of the new entrant joining. As the Commission notes, regional ISOs represent an efficiency gain in all aspects of system operation and planning, and also in rates, and any method seeking to perfect benefits tracing to zones for purposes of cost allocation would undermine the "structure and intended purpose provided by . . . operation as an RTO."

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.

NV Energy believes that cost allocation of projects driven primarily by a reliability need should receive further consideration and warrants more discussion. For example, fixed investment to meet a particular local or sub-regional need may not require a DFAX analysis, or the reliability benefit that extends to another zone or sub-region may be apparent or supported through means other than flow modeling. Because of PJM's experience and difficulties with the DFAX method, NV Energy supports exploring other methods of reliability project 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.

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.
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.

NV Energy agrees that 100% of a policy-driven project should not be allocated 100% to the constituents of the state enforcing the policy if the project is demonstrated to meet a regional need and offer regional benefits. With respect to projects that, on balance, are driven by a policy that is not shared by all member states, NV Energy is concerned about cost shifts that create barriers to new entrants. Projects that meet policy objectives and represent a cost savings for those subject to enforcement of the policy mandate should not be cost-allocated on the basis of ensuring that those subject to the mandate capture 100% of those cost savings. Rather, the cost allocation methodology should allow for capturing the benefit of some cost savings in meeting the policy goal with an eye towards preventing an allocation to other sub-regions that would foreclose their realization of the value proposition of being part of the region.

Consistent with the foregoing, NV Energy would support a percentage cost allocation to sub-regions subject to a policy directive that recognizes the mandatory nature of the policy driver and that any regional project meeting the need presumably does so because it provides the most cost-effective means of meeting the mandate. A relative benefits assessment should be used for cost allocation to the point of ensuring that all parties realizing a benefit will shoulder a share of the costs. At the same time, a percentage allocation allows a sub-region subject to the mandate to realize a reasonable proportion of the savings of that project balanced against ensuring that other sub-regions, not subject to the mandate, do not shoulder more costs than are sustainable.

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.

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.

NV Energy does not support the BAMX proposal. By allocating all costs to only the generators and LSEs making use of the project, the proposal ignores the potential regional benefit provided by the project, including how the project lowers costs for all, and unfairly relieves some members of the region from fairly assuming a portion of the costs.

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