Stakeholder Comments Template

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

Submitted by	Company	Date Submitted
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ORA supports many of the changes reflected in the CAISO's Second Revised Straw Proposal and appreciates the opportunity to provide the following comments.

Second Revised Straw Proposal

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.

ORA appreciates the CAISO's efforts to address the issue of PTOs embedded within or electrically integrated with an existing sub-region.

ORA agrees that PTOs embedded within or electrically integrated with an existing sub region should become part of the relevant sub-region, because they will use the surrounding sub-region's facilities to serve their customers.

However, ORA recommends that PTOs that are not embedded within an existing sub-region or electrically integrated based on criteria specified in the tariff (see question 2 below) should be provided a one-time choice to join that sub-region or become a separate sub-region. PTOs that are not embedded within an existing sub-region or electrically integrated may have operating characteristics, customer base and transmission and/or distribution infrastructure systems configurations that differ from those of the existing sub-region. These differences may require new PTOs to establish operating characteristics and low voltage TACs different from those of the existing sub-region. For these reasons, PTOs that are not embedded within a sub region or electrically integrated based on tariff criteria should be allowed to determine if it is in the best interest of their ratepayers to join the relevant sub-region in order to participate in the expanded ISO.

2. <u>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.</u>

   ORA has no comments on these definitions at this time, but recommends that the criteria for determining whether a new PTO is electrically integrated be determined as part of a stakeholder process.

3. <u>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.</u>

   ORA agrees that facilities that are planned and approved through a Transmission Planning Process (TPP) for the expanded ISO should be defined as new facilities.

   ORA also agrees with requiring PTOs that join the expanded ISO to be responsible for the cost of new regional facilities approved through a TPP to the extent that they benefit. Cost responsibility should be based on the benefits the new PTOs receive from each such facility, which is consistent with FERC Order 1000's requirement that costs must be allocated "roughly commensurate" with benefits.

   ORA recommends that the projects should be evaluated to determine which sub regions benefit from them. The cost should be allocated commensurate with the benefits.
   In order to deter PTOs from waiting to join the expanded ISO until after the completion of new transmission facilities in the expanded ISO, regional cost allocation should be based on the benefits received from use of the facilities, regardless of when the PTO joins the expanded ISO BAA.

4. <u>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."</u>

ORA agrees with the proposed simplified definition of existing facilities.

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.

ORA continues to recommend that the costs of existing transmission facilities be allocated to all sub-regions within the expanded ISO based upon the benefits the sub-region receives from the existing facilities.[1] CAISO ratepayers have made substantial investments in existing transmission facilities. Those existing transmission facilities have the potential to benefit other sub-regions. The CAISO expects to analyze new transmission facilities for potential benefits to other sub-regions. A similar analysis should be conducted for existing facilities.

Six Cities pointed out the inequity of failing to take into account the benefits of existing facilities to other sub-regions in the example below:

> "[For] 45 MW of a wind resource in Wyoming, PacifiCorp will pay less than half of the transmission charges associated with that transaction as would a current CAISO [PTO] procuring the same resource. Similarly, if PacifiCorp procured 45 MW of a solar resource located in Riverside County, PacifiCorp would pay less than half the transmission charges as the City of Riverside, California, would pay. Such a result is plainly unfair.[2]

A benefit analysis should be repeated or updated when a new PTO joins the expanded ISO.

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.

[1] http://www.caiso.com/Documents/ORAComments-TransmissionAccessChargeOptionsWorkingGroup_Aug11_2016.pdf

[2] March 29, 2016 Comments on the February 10, 2016 TAC Straw Proposal and March 9, 2016 Benefit Assessment Methodology Workshop, Page 7 Question 3.
http://www.caiso.com/Documents/SixCitiesComments-TACOptions-StrawProposal-BenefitsAssessmentMethodologies.pdf

ORA continues to recommend that the TEAM be expanded to include a broad range of potential benefits including economic benefits such as employment and tax revenue increases. The current TEAM does not consider the economic multiplier benefits that accrue to a region as a result of transmission projects.

ORA continues to support consideration of employment and tax base increases as benefits of transmission projects that should be quantified and assessed into the total economic benefits a sub-region receives from a transmission project regardless of the project type. In response to stakeholder comments recommending inclusion of the economic benefits such as increased employment, the CAISO stated "the benefits become indistinguishable at some point, from policy drivers established for policy driven transmission."[3] ORA disagrees. Even if one state's policy is the initial driver of a transmission project, significant economic benefits may accrue to other states where the transmission project is built or whose generators benefit from the transmission project. Therefore, it would be helpful to quantify and assess those benefits.

7. <u>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.</u>

   ORA supports this proposal for allocatin the costs of reliability projects. The cost of transmission projects that are approved as reliability projects should not be eligible for cost allocation across different sub-regions, because maintaining reliability within a sub-region would be required even in the absence of joining an expanded ISO.

8. <u>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</u>

   Sub-regional driven policy projects can have direct benefits to other sub-regions such as more efficient operation of the grid. For this reason, ORA recommends that the cost allocation of policy projects be based on benefits to sub-regions irrespective of the policy-driver.

9. <u>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</u>

[3] California ISO-TAC Options Initiative-2nd RSP Addendum—Response to Stakeholder Comments, October 6, 2016, pp. 6-7.

is a distinct new project, not an enhancement of a previously selected reliability or policy project.

ORA agrees with this cost allocation, but recommends expanding the TEAM benefit analysis to consider economic benefits such as employment and tax base increases that may accrue to other sub-regions as a result of the economic projects, and that the costs be allocated commensurate with the benefits.

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.

ORA supports the consideration of the avoided cost of the reliability project first for cost allocation purposes of regional projects.

ORA recommends that the costs of policy projects be allocated based on the benefits received irrespective of the policy-driver. Unlike reliability projects, which are required to avoid violating NERC criteria, policy projects are designed to support policies of a particular state, but may provide benefits to other sub-regions.

Based on ORA's review of TEAM, the TEAM does not consider the full range of transmission benefits such as employment and tax base increase benefits, and for this reason TEAM should be expanded to adequately allocate the economic benefits of projects.

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.

ORA supports the scenario 1 policy project cost allocation, as proposed above, as it appears to be consistent with FERC Order 1000.

ORA also recommends that the Western States Committee (WSC) have primary authority over cost allocation for policy projects to ensure all policy project benefits are assessed for cost allocation in a forum that is open, transparent and includes state representatives.

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.

    This proposed approach does not appear to be consistent with the FERC Order 1000 cost allocation principle that costs be allocated commensurate with benefits received. ORA recommends that cost allocations be consistent with FERC Order 1000, and for this reason does not support the scenario 2 policy project allocation as described above.

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.

    ORA supports competitive solicitation for new transmission projects. Ratepayers should have the benefit of robust competitive solicitations to build transmission projects at the lowest cost to ratepayers.

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.

    Consistent with ORA's prior comments on the May 20, 2016 TAC proposal, ORA continues to support adjustments to the TAC to account for changes to the transmission network, and recommends that this recalculation be done every three years to align with the regional TPP process versus every five years as previously proposed.

    In addition, as PG&E pointed out in its March 31, 2016 Straw proposal comments, a PTO can also request a re-calculation of the TAC through a Section 206 filing at FERC in the event that the PTO believes that the benefits and costs have become unjustly out of balance.

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.

    ORA agrees with this proposal to establish a single region-wide export access charge (EAC) because it would deter gaming. ORA agrees with the proposal to use a load-weighted average of the sub-regional TAC rates for the EAC because it would result in assigning costs proportionate to benefits, consistent with FERC Order No. 1000 transmission cost allocation principles.

16. <u>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.</u>

    ORA supports the EAC proposal requiring that non-PTO entities within a sub-region pay the proposed EAC to maintain consistency with wheeling charges within the expanded ISO and outside of the expanded ISO.

17. <u>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.</u>

    ORA supports the proposal to allocate EAC revenues to each sub-region in proportion to their transmission revenue requirements. This approach recognizes the resources used by the sub-regions in export transactions. The EAC distribution option based on load does not recognize the resources used in export transactions.

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

    In the May 20, 2016and September 30, 2016 TAC proposals, the CAISO proposed that the WSC preside over the cost allocation of policy projects that involve more than one sub region.

    ORA staff supports the role of the WSC in the cost allocation of policy projects. ORA staff recommends that the WSC's deliberations on cost allocation of policy projects be modeled after the CAISO-led TPP. This TPP allows for stakeholder input on project considerations prior to CAISO Board project approval decisions. ORA recommends this type of open deliberation before decisions on cost allocations for policy projects. All WSC meetings, including those involving the deliberation of cost allocations for policy projects, should also be publicly noticed, open and transparent.