California ISO

Memorandum

To: ISO Board of Governors

From: Neil Millar, Vice-President, Vice President Transmission Planning and Infrastructure Development

Date: October 22, 2026

Re: **Transmission Economic Assessment Methodology Update**

This memorandum does not require ISO Board of Governors action.

The Transmission Economic Assessment Methodology (TEAM) sets out principles for economic planning and outlines a framework to implement those principles. As supply and demand conditions have evolved through the west over the last two decades, flow patterns have changed significantly, including the emergence of flows through the California grid. The resulting changing flow patterns triggered the consideration of potential revisions to the congestion revenue allocation approach in the TEAM that were presented and discussed in the ISO's 2025-2026 Transmission Plan. Management brings this issue forward to the Board for informational purposes.

Previously, the ISO calculated congestion revenue in the production cost modeling and identified congestion revenue based on transmission ownership of the path on which the congestion occurred. This congestion revenue allocation approach had been used in the ISO's transmission economic assessments since the TEAM was adopted by the ISO in 2005.

The ISO is changing the congestion revenue allocation approach applicable to the TEAM in two ways:

1. Allocate congestion revenue within the ISO footprint to areas that have net positive flow contribution to constraints; and,
2. Base the allocation on net generation distribution factors of each area to each constraint.

As a result of this revised flow contribution-based approach, congestion revenue on ISO internal constraints is only partially allocated to ISO's ratepayers even though ISO's participating transmission owners (PTOs) may have 100% ownership on the constrained transmission lines. The previous approach identified congestion revenue based solely on ownership, whereas this new methodology only partially allocates to ISO ratepayers even if the lines are fully owned by participating transmission owners with in the ISO. This more properly reflects the value of alleviating those constraints to the ISO ratepayers; the ISO's economic analysis focuses on net ratepayer benefits in considering potential economic transmission development.

The updates to the TEAM document that were identified with detailed analysis in the 2025-2026 Transmission Plan were subsequently presented to stakeholders at the stakeholder meeting on September 17, 2026. Stakeholders supported the changes with recommendations to continue to monitor changes related to changing flow patterns and activities within the western interconnection to determine if potential additional future changes may be required. The TEAM document has been updated and is provided in Attachment 1 for reference.