

Stakeholder Comments Template

Transmission Access Charge Options

August 11, 2016 Stakeholder Working Group Meeting

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the August 11, 2016 stakeholder working group meeting. Topic 1 of the template is for comments on the default cost allocation provisions for new regional transmission facilities, the topic of the morning session of the working group. Topic 2 is for comments on the region-wide TAC rate for exports, which the presentation referred to as the “export access charge” (EAC) and was the topic of the afternoon session of the working group. The ISO invites stakeholders to offer their suggestions for how to improve upon the ideas discussed in the working group meeting.

The presentation for the August 11 meeting 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 **August 25, 2016**.

Topic 1. Default Cost Allocation Provisions for New Regional Transmission Facilities

Context

For purposes the working group discussion the ISO assumed that the current structure of the transmission planning process (TPP) would be retained for the expanded BAA. That is, the TPP would consist of a first phase for specifying and adopting planning assumptions including public policy directives that would drive transmission needs, as well as a study plan. The second phase would consist of a sequential process for performing planning studies and identifying reliability projects, followed by policy-driven projects, and finally economic projects. With each successive

project category, the ISO may identify a project that serves the need of a project identified in a prior category, in which case the project would be labeled by the last category in which it was identified, but its cost allocation would reflect the benefits in all categories.

By design these two TPP phases take 15 months, at the end of which the ISO would present the comprehensive transmission plan for approval to the governing board for the expanded BAA. At the working group meeting the ISO also pointed out that while the concept of a “body of state regulators” or “Western States Committee” is still under discussion in the context of governance for the expanded BAA, no details have been developed or proposed regarding this entity’s role with regard to transmission planning and cost allocation. Moreover, once the default provisions being discussed in the working group are finalized, filed and have been approved by FERC for inclusion in the ISO tariff, any variations or deviations from those provisions would also have to be filed and approved by FERC. Stakeholders should therefore view the current effort to develop default cost allocation provisions as determining the rules that would govern transmission cost allocation for the expanded BAA.

Stakeholders should assume for purposes of their comments that the current ISO TPP structure would be followed in an expanded TPP performed for the expanded BAA. Parties wishing to comment on or suggest alternatives to these assumptions may add any additional comments at the end of this topic.

Questions

1. The working group presentation assumed we would use the current Transmission Economic Assessment Methodology (TEAM) to calculate a project’s economic benefits to the BAA as a whole and to each of the sub-regions. Currently TEAM calculates the following types of benefits: efficiency of the economic dispatch, reduction of transmission line losses, and reduction of resource adequacy capacity costs. Are these economic benefit types sufficient for purposes of cost allocation, or should other types of benefits be included? Please describe any additional benefit types you would include in the benefits assessment and suggest how they could be quantified.

Response: Cost allocation should be based on all economically derived benefits associated with transmission investment, *including benefits associated with accessing lower-cost resources* whether they are for resource adequacy, lower economic dispatch and/or RPS requirements. The TEAM allows for a broad range of economic benefits to be included within a benefit to cost analysis that could be performed at the BAA level and repeated at the sub-regional level for cost allocation. The current TPP relies on input from the CPUC based on the CPUC’s economic assessment of renewable energy portfolios to determine prescriptive Public Policy Needs in the form of assumed resource areas. This arrangement is outlined within a 2010 Memorandum of Understanding between the ISO, the CPUC and the California Energy Commission. TransWest agrees with the ISO’s assumption that the current ISO TPP structure would be followed in an expanded TPP. This assumption implies a consistent approach to the TPP for the California entities, regardless of if and when an expanded BAA may be established. This continuity in approach should be viewed as a key requirement to evaluate Regional, Interregional and Expanded Regional transmission

solutions and cost allocation amongst other Transmission Owners in the current and subsequent TPPs both before and after regional expansion.

While it is important for California to maintain and evolve its approach to resource planning, the other states in the expanded BAA also must be allowed to maintain their respective approach(es) to resource planning. These respective approaches all must be accommodated both within the current Regional/Interregional Transmission Planning Processes and the future expanded Regional TPP. Given the multi-state nature of an expanded regional market, it isn't clear if or how other states (regulatory agencies, energy commissions, LSEs) would provide direction to the Regional System Operator (RSO) consistent with the current or future (e.g. IRP) CPUC process. Regardless of how this Public Policy direction is provided to the RSO, the entity providing this information could and should provide relevant economic benefit information that could be used within the TEAM by the RSO. In this way the entity providing direction would provide the "need" and the associated economics to be analyzed by the RSO with various transmission solutions.

The ISO has some experience with this from its work directing the consulting firms analyzing the benefits of a regional market expansion. E3 used data originated from the CPUC's RPS Calculator to estimate the benefits associated with various portfolios contemplated within the study. This is the same approach taken in several other studies, including E3's 2014 50% RPS study¹ and NREL's 2014 California-Wyoming Integration study². While these example studies were completed outside of a formal TPP, this same analytical approach could be used to take economic data from one process (e.g. LTPP, IRP, etc.) and use it in another (e.g. TPP).

2. The ISO's presentation suggested that a sub-region's avoided cost for a needed transmission project could be included among the benefits of a project with region-wide benefits. For example if project A with region-wide economic benefits enables sub-region 1 to avoid a reliability project B that would have cost \$40 m, then the \$40 m avoided cost should be included in the total benefits of project A for purposes of cost allocation to the sub-regions. Please comment on whether such avoided costs should be included in the benefits for cost allocation purposes.

Response: If used, avoided cost as a benefit in a policy/economic project TEAM analysis should only be limited to Reliability projects. Generally Reliability projects are required to meet a specific load-related reliability needs. If a larger Regional, Interregional or Expanded Regional project can offset a local reliability project, the saved transmission costs would be relevant within the TEAM. If the "avoided" Sub-Regional project has Public Policy and/or Economic drivers, these should all be addressed within the TEAM as an assessment of the total system benefits and not the avoidance of transmission costs. The expanded TPP could look at the economics of a Sub-Regional project versus a Regional/Interregional project and select the one that provides the greatest overall benefits.

¹ https://www.ethree.com/documents/E3_Final_RPS_Report_2014_01_06_with_appendices.pdf

² <http://www.nrel.gov/docs/fy14osti/61192.pdf>

Although not covered at the workshop, the ISO should clarify if a GIP request/agreement can trigger a Reliability project? Adding a generator to the network may cause reliability violations, however it isn't clear if this resource-related action meets the criteria for a reliability need. Above TransWest refers to load-related reliability requirements to distinguish them from GIP driven projects.

3. In the example of Question 2 a specific project B was identified to meet a reliability need, and so its avoided cost could be viewed as a realistic estimate of the cost to sub-region 1 of mitigating its reliability need. In many instances in practice, however, cost-effective projects may be identified that provide economic, policy and reliability benefits without the planners ever identifying less costly but narrowly-scoped hypothetical alternative projects that could serve to provide concrete avoided cost estimates. Do you think it is important to perform additional studies to determine meaningful avoided cost estimates to use in cost allocation, perhaps by identifying hypothetical alternatives that would not ordinarily be considered in the TPP? Are there other approaches you would favor for estimating avoided costs to use in cost allocation? What other methods should the ISO consider for allocating reliability or policy "benefits" to a sub-region absent a well-defined project that can be avoided?

Response: No, it is not important to focus the limited resources dedicated to support the TPP to analyzing hypothetical alternative projects. If a project has multiple sources of policy/economic benefits, these attributes should be the focus of the TPP. Cost estimates for hypothetical projects should be derived through a less rigorous process, if required at all.

4. The cost allocation approach presented at the working group for projects with benefit-cost ratio $BCR < 1$) started by first allocating cost shares equal to economic benefits, and only after that allocating remaining costs to the sub-region(s) driving the reliability or policy need. In the discussion, some parties suggested reversing this order, i.e., to start by allocating a cost share to the sub-region with the reliability or policy driver base on the avoided cost of the reliability or policy project it would have had to build, and only then allocating remaining costs based on economic benefit shares. Please state your views on these two approaches, or describe any other approach you would prefer and explain your reasons.

Response: Generally, load-driven reliability projects are local, or at the most, sub-regional in nature. Solutions to local load growth and/or local Resource Adequacy deficient load pockets will not necessarily create sufficient benefits beyond the sub-region. TransWest believes a fair amount of the projects that the ISO and PacifiCorp has and will analyze as Reliability Projects are sub-regional in nature and should continue to be analyzed as sub-regional projects unless and until the sub-regions are fully integrated into a single region.

Beyond load-related reliability projects, major sub-regional and regional transmission projects are likely to be driven by economics, either as Public Policy projects, Economic projects or as a combination of both. As suggested in the response to question 1, TransWest believes that the economic benefits associated with the Public Policy drivers and non-Public

Policy drivers should be analyzed as a total set of economics within the TEAM.

5. The presentation at the working group suggested that all facilities > 200 kV planned through the expanded TPP would be assessed for potential region-wide economic benefits. Some parties suggested the ISO should apply threshold criteria to eliminate projects that clearly would not have region-wide benefits, rather than perform TEAM studies for all > 200 kV. Do you support the use of threshold criteria? If so, what criteria would you apply and why?

Response: TransWest supports using a threshold to effectively manage the RSO's resources dedicated to the TPP. Load-related Reliability Projects should not be assessed for potential region-wide economic benefits. All Public Policy and Economic projects should be assessed for potential region-wide economic benefits.

6. Do the details of TEAM, e.g., financial parameters, period over which present values are determined, etc., need to be pre-determined to maximize consistency of methodology and criteria across all projects, or should case-by-case considerations be taken into account?

Response: The financial parameters should be pre-determined across all projects initially and be based on general assumptions about transmission investments. If needed, these parameters may be altered as part of specific assessments of projects as needed. This should be the exception and not the rule.

7. Should incidental benefits to a sub-region cause a cost allocation share for that sub-region even though the project would not have been built but for a reliability or policy need in another sub-region?

Response: For reliability projects, incidental benefits to a sub-region should not cause a cost allocation share to that sub-region. For economically driven projects, either Public Policy, Economic or combination projects, then incidental benefits to a sub-region should result in a cost allocation share to the sub-region. TransWest's understanding is that the incremental transmission capacity associated with a transmission investment will not be reserved to Network Customers of a certain sub-region once the project is built. If Network Customers in either sub-region could use the incremental capacity of these projects, then they should be allocated a share of the cost of the investment.

8. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.

Response: The assumption of the portability of the current TPP, and the associated relationship between the California agencies as documented in the May 2010 MOU, to other

states needs to be carefully examined by the ISO and all stakeholders. It is possible that due to a different approach that states may use, some states may not classify general economic needs (or opportunities) as Public Policy needs in the same way California does. This could result in a lack of Public Policy needs for states outside of California. The ISO proposal would then look at a limited set of economics, not including economics related with accessing low-cost renewables.

Large Regional/Interregional projects built to realize the benefits identified in the ISO's Regional Expansion Studies associated with accessing out-of-state wind resources, could potentially be unfairly allocated to the California sub-region while the capacity could be used by LSEs in either sub-region to lower their system costs by accessing these lower-cost renewable resources. TransWest makes this assumption based on a review of previous transmission planning work that has found the Resource Adequacy and PCM-related benefits of renewable resource portfolios to be an order of magnitude lower than the "public policy" benefits.

By including the benefits associated with California Public Policy needs with the non-Public Policy benefits of California and the other sub-region(s) in a single economic assessment, cost allocation can be performed in a fair and equitable manner.

It would be helpful for the ISO to develop examples using the potential major regional projects considered in the Regional Expansion Studies and concentrate on the Public Policy and Economic needs and benefits first, and then add in hypothetical Reliability needs as a sensitivity to these examples.

(END OF RESPONSES)