

# Stakeholder Comments Template

## Transmission Access Charge Options

### February 10, 2016 Straw Proposal & March 9 Benefits Assessment Methodology Workshop

Submitted by	Company	Date Submitted
Nancy Kelly ( <a href="mailto:nancy.kelly@westernresources.org">nancy.kelly@westernresources.org</a> )	Western Resource Advocates  (Joint Comments of: WRA, WGG, NRDC, NWECA, and UCE)	March 23, 2016

Western Resource Advocates (WRA), Western Grid Group (WGG), Natural Resources Defense Council (NRDC), NW Energy Coalition (NWECA), and Utah Clean Energy (UCE) appreciate this opportunity to submit comments on the Transmission Access Charge straw proposal and associated benefits assessment methodology. While consensus among stakeholders and public utility commissions (which must ultimately approve the transfer of control of assets of a PTO proposing to join the expanded BAA) would be ideal, we do not believe that a lack of consensus should become a roadblock for implementation of a Regional System Operator (RSO). The TAC straw proposal appropriately separates the recovery of the cost of the existing transmission system from the recovery of the cost of new transmission facilities. This will ease regulatory concerns about the shifting of costs of the existing grid and create pathways for agreement on the implementation of an RSO even if agreement is lacking on the allocation of costs of new transmission.

#### **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.

#### **We support the straw proposal and offer the following additional comments:**

- We concur that there may be instances where a “one size fits all” definition of sub-region is not appropriate. The West has very diverse BAAs – some are generation-only BAs with no load (e.g., New Harquahala Generating Company, LLC; Griffith Energy, LLC; Sun Devil Power Holdings, LLC; Arlington Valley, LLC; NaturEner Wind Watch, LLC; Gridforce), and others are very small BAs

which rely on a large neighboring BAA's transmission (e.g., BPA). Presently, we do not have suggested criteria to be used in evaluating such exceptional cases.

- We believe that utilities being served by an existing BA should have the opportunity to depart from that BAA and join the RSO.
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.

**We support the straw proposal and offer the following additional comments:**

- The distinction of existing and new facilities should be a bright line. If a project has not been approved under a new integrated transmission planning process, then it should not be considered a “new” facility and therefore would not be eligible for RSO mandatory cost allocation.
  - Transmission developers, however, should always have the opportunity to build new transmission through voluntary agreements among multiple parties.
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.

**We support the straw proposal and offer the following additional comments:**

- This outcome, where sub-regions would continue to pay the same costs for existing facilities under an expanded BAA as they would have paid if they remained separate, is appropriate and will mitigate cost shifting concerns certain to arise in state regulatory proceedings.
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.

**Not Applicable.**

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.

**We support the straw proposal.**

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.

**We support the straw proposal to allocate the cost of a new transmission project to the beneficiaries of the project.**

- We do not believe any other approach will be acceptable to regulatory commissions, which must approve the transfer of assets for a proposed PTO to join the expanded BAA.
  - The approach in the straw proposal is particularly appropriate given the presently limited transmission connection between the CAISO and PacifiCorp.
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.

**We support the straw proposal and offer the following additional comments:**

- We recommend using alternative language to clarify the meaning of “new,” since “new transmission” (and the subsequent allocation of costs) as provided in the straw proposal may become confusing as new entrants are added to the RSO footprint.
  - To enable potential PTOs to evaluate the cost and benefits of joining the RSO, the transmission costs that would be assigned to the prospective PTO need to be clearly identified.
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.

**We support the concept of periodic re-calculation of benefits of new regional facilities and offer the following additional comments:**

- As the market expands and matures and efficiency gains start to build up, the use of the grid will likely change. With those changes, there will be changes in

benefits, and we should be able to reflect those in the charges. For example, as more solar generation is added, re-calculation of benefits will be increasingly important as power flows “slosh” back and forth across the grid based on the time of day.

- Any procedure used for the re-calculation of benefit and cost shares by the RSO should be conducted in a transparent manner.
  - We recommend that implementation of re-calculated cost shares should be done in a manner that limits significant year-to-year shifts. This allows a smooth transition from historic cost causation to current cost causation.
  - The calculation of benefits should be forward-looking as opposed to being based solely on historical cost causation. We are aware that supporting current cost causation for “RSO” facilities might be perceived as being inconsistent with establishing permanent license plate rates for existing transmission. While we believe the latter is essential for formation of the RSO, when looking forward, current cost causation is the preferred approach.
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).

**Regarding CAISO’s approach to related issues which it has identified as not part of the scope of the TAC straw proposal, we offer the following suggestions on each of the six topics identified in the straw proposal:**

1. *A comprehensive assessment of the costs and benefits associated with expanding the ISO BAA or of any particular entity joining such an expanded ISO.*
  - a) The initial CAISO SB 350 study plan fails to address the central issue of the benefits derived from specific utilities joining the CAISO. We hope that the SB 350 study plan has been modified to also evaluate the benefits of an RSO that has a smaller geographic scope than the entire U.S. portion of the Western Interconnection. If the SB 350 studies do not evaluate the benefits individual additions to the RSO footprint, then, at a minimum, CAISO needs to make available all the data and assumptions used in the SB 350 studies so that other parties can run studies of the benefits of specific companies joining the RSO.
2. *Specific details of an expanded transmission planning process (TPP) and new resource interconnection process that would be created for an expanded ISO.*
  - a) CAISO proposes to start addressing these issues in late 2016 or 2017. The RSO’s transmission planning process will be a central issue for regulatory commissions and intervenors in regulatory proceedings related to the transfer of control of assets to the RSO. It will take time to develop an integrated transmission planning process that rectifies shortcomings in the current CAISO TPP and to figure out how to mesh an improved TPP process with those of PacifiCorp and

other potential participants in the RSO. The ISO needs to begin the stakeholder process on the RSO transmission planning process soon. Ideally, this process should be closely linked to the FERC Order 1000 interregional and regional processes in the Western Interconnection, while at the same time avoiding duplication.

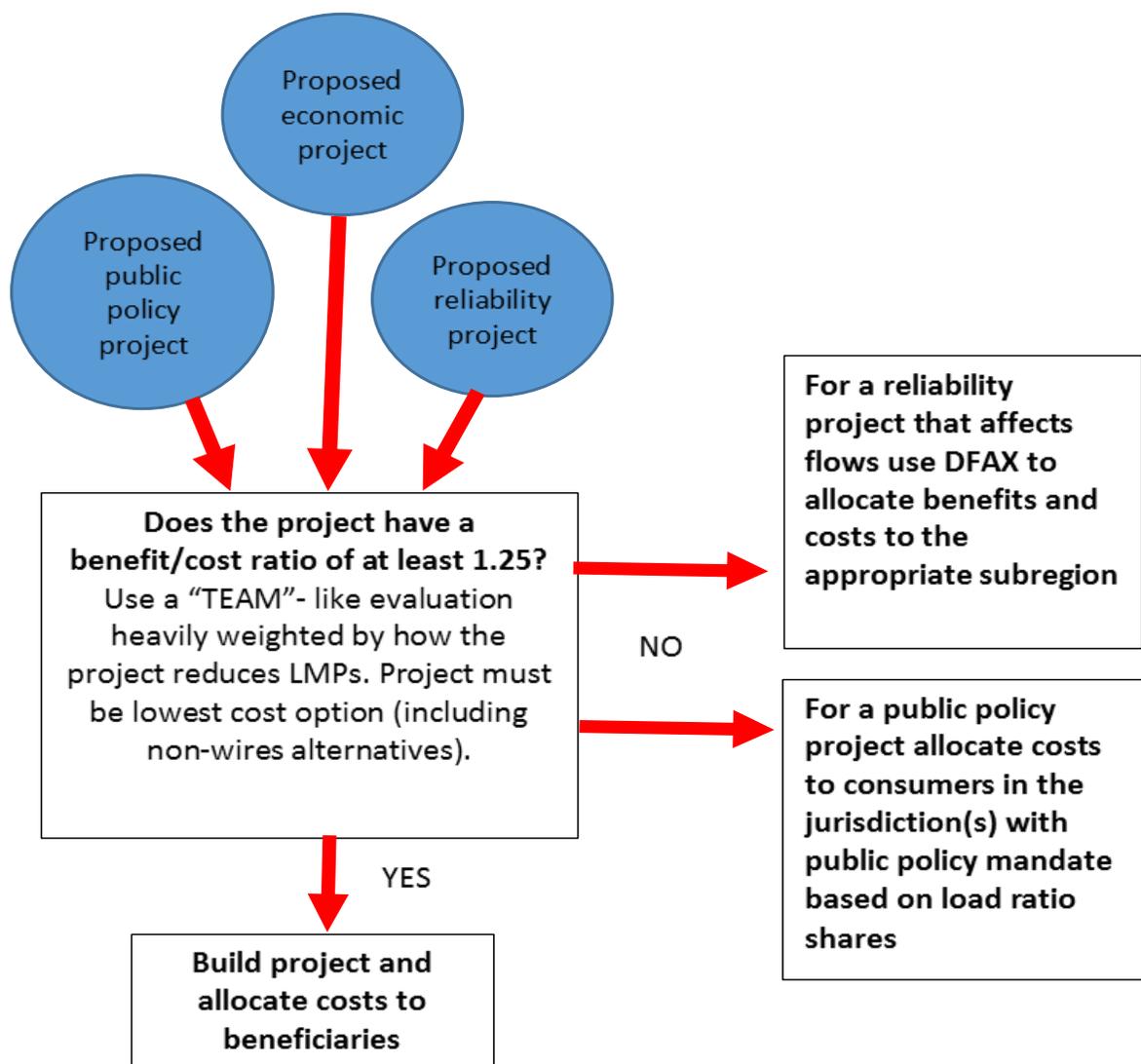
3. *Possible changes to the allocation of TAC to exports*
  - a) We agree that the separate ongoing TAC process is the appropriate place to resolve this issue and encourage this process to remain open and transparent.
4. *Possible treatment of transmission service contracts that existed on the new PTO's system prior joining the ISO*
  - a) It is good that PAC and CAISO have already launched discussion with parties with transmission contracts with PAC. We urge PAC and CAISO to publicly report on how issues will be resolved and to identify any "sticking points".
5. *Review of the rules for determining load subject to TAC to reflect the effects of utility side distributed generation*
  - a) We support including in the scope of phase 2 of the energy storage and distribution energy resources (ESDER 2) initiative resolution of this increasingly important topic.
6. *Congestion revenue rights (CRRs)*
  - a) As is the case with topic 1 (RSO transmission planning process), treatment of congestion revenue rights is a potential "show stopper" at regulatory commissions whose approval is necessary to make the RSO a reality. CAISO needs to address this topic early.

## **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.

### **We believe the following approach provides an alternative to be explored:**

All projects are considered economic projects unless they meet other criteria specified below, and, therefore, the first measure of benefits to be applied to any project is an evaluation of economic benefits, measured as the difference in LMP prices (including congestion costs), with and without the project. While projects may be identified as needed to meet reliability criteria or needed to meet public policy objectives, the costs of the project would not be allocated in a separate manner unless one of the following conditions applied. The graphic below illustrates this approach.

Figure A: Proposed Benefits Assessment Methodology<sup>1</sup>

- **Reliability:** Projects undertaken to meet system reliability may have no associated economic benefits. In such a situation, a different allocation method other than an economic evaluation will be more appropriate.

We propose that when a project is: (a) undertaken to maintain the ability of the RSO to meet reliability criteria, (b) the economic benefit/cost ratio is less than 1.25, and (c)

<sup>1</sup> Note that the diagram in Figure A is provided merely to assist in illustrating our proposed alternative for assessing benefits. As a result, some concepts may be over-simplified in the diagram.

the project affects flows, that benefits are determined using a distribution factor analysis, similar to PJM's DFAX method.<sup>2</sup>

We propose that when a project is: (a) undertaken to maintain the ability of the RSO to meet reliability criteria, (b) the economic benefit/cost ratio is less than 1.25, and (c) there is no associated flow change, the project is allocated to all system participants. (We acknowledge that this situation is unlikely to arise because if the project is at a voltage level less than 345 kV, it would be allocated to the sub-region in which it resides.)

- **Public Policy:** In general, we recommend avoiding this type of distinction because of the contentious nature of allocating costs of public policy projects in the West.

Our concern noted, we propose that a project would be identified as a Public Policy Project if: (a) the project is identified as necessary to meet public policy objectives, and (b) the project has a benefit/cost ratio of less than 1.25. In that case its costs would be fully allocated to the jurisdiction or jurisdictions whose policy drives the need. If more than one jurisdictions' policies drive the need (for example, California's and Oregon's 50% RPS), costs would be allocated on a pro rata load ratio share.

If a project has a benefit/cost ratio of more than 1.25, it would be considered an economic project and its costs would be allocated based on economic benefits.

- **Economic:** Projects needed to improve system reliability, projects needed to meet public policy objectives, and projects that improve system efficiency whose economic benefits exceed costs by at least 25% are defined as economic projects and their costs allocated based on pro rata load ratio shares.

We believe this approach is consistent with the "beneficiary pays" principle of FERC Order 1000 and is the most likely proposal to garner broad support across the West.

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.

**We support the straw proposal and offer the following additional comments:**

- Allocating the cost of new regional facilities to beneficiaries of the facilities via a more specific mechanism than a postage-stamp rate is the fairest way of allocating costs and will smooth the path to securing necessary regulatory approvals for a prospective PTO to join the RSO.

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<sup>2</sup> As we understand it, the litigation associated with DFAX stemmed from two issues: (1) spreading half the cost of reliability projects to all system participants regardless of beneficiaries; and (2) improperly applying DFAX which is a flow-based approach to projects that had no associated flow. We believe that our proposal should not be subject to the same litigation.

- If a methodology for defining benefits that flow to specific beneficiaries is not attainable, then we would consider supporting an alternative proposal to spread some of the project costs system-wide (postage-stamp).

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.

**The DFAX method is only appropriate for reliability projects and then only if economic benefits are not associated with the project and only if the project has an associated flow.** See answer to # 10 above.

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.

**Consistent with our answer to question #10 above, a production cost approach could work if it measured LMP prices and included congestion costs, and it could be applicable to other types of projects if the benefit to cost ratio exceeded 1.25.** See answer to # 10 above. With regard to TEAM itself, not enough detail has been provided to take a position. Those of us outside of California who are unfamiliar with the TEAM method need significantly more detailed information.

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.

**We agree in concept with including other benefits, and agree that more information on how this could be done effectively would be helpful. As a starting point, some of these "other" benefits have been identified in a Brattle Group report conducted for the WIRES group: ["The Benefits of Electric Transmission: Identifying and Analyzing the Value of Investments"](#).<sup>3</sup> A summary is outlined below:**

- The Brattle report addresses a variety of benefits that range from those which immediately result from costs incurred for a specific service (e.g., interconnection

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<sup>3</sup> We are providing information on the Brattle Group report as a resource for consideration by the CAISO. While we believe that a great deal of valuable information is provided by this analysis, we are not advocating one particular methodology over another by referencing this report.

service) to benefits with broader or longer-term impacts from improvements or extensions of a shared system (e.g., competitive access to markets or resources, congestion relief, or increased reliability).

- The Brattle report summarizes CAISO's TEAM approach, as well as approaches used by other RTOs/ISOs. While the Brattle report's summary is a good start, as previously noted, it would be helpful to have the CAISO elaborate on its TEAM approach so that stakeholders better understand how it will be used to implement the TAC process.
- The Brattle report also proposes a number of possible methodologies for analyzing a wide variety of benefits. For example, see pages 46-49 of the Brattle report for a discussion of how to potentially analyze reliability and resource adequacy benefits of transmission projects. In addition, generation capacity savings are discussed on pages 49-52 and benefits from increased competition and market liquidity are discussed on pages 52-53. This discussion is particularly relevant, as it addresses transmission-related benefits that are *not* typically reflected in production cost savings.
- In addition, a presentation by WestConnect's Cost Allocation Subcommittee summarizes some of these methodologies included in the Brattle Group study (see slides 29-30):  
[http://www.westconnect.com/filestorage/07\\_21\\_15\\_wc\\_cas\\_meeting\\_presentation.pdf](http://www.westconnect.com/filestorage/07_21_15_wc_cas_meeting_presentation.pdf). WestConnect also has recently proposed a process for project capital cost verification for benefit-cost ratios that could be instructive (see slide 21):  
[http://www.westconnect.com/filestorage/03\\_15\\_16\\_wc\\_cas\\_meeting\\_presentation.pdf](http://www.westconnect.com/filestorage/03_15_16_wc_cas_meeting_presentation.pdf).

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.

**See our answers to questions #10 and #11 above.**

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.

**See our answer to question #10.**

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.

**See our answer to question #10.**

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

**None at this time.**