

# Stakeholder Comments Template

## Transmission Access Charge Options Issue Paper

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the issue paper for the Transmission Access Charge Options initiative that was posted on October 23, 2015. The issue paper 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](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **November 20, 2015**.

1. One theme emphasized in the issue paper and in FERC orders is the importance of aligning transmission cost allocation with the distribution of benefits. Please offer your suggestions for how best to achieve good cost-benefit alignment and explain the reasoning for your suggestions.

We strongly agree that cost allocation is not a science, based on many years' experience with ratemaking based on allocating joint costs of production, an underappreciated feature of determining utility cost structures. We recommend that as a starting point:

- Transmission costs associated with the current transmission system should be reflected in different **Base Transmission Access Charges (TACs)** for existing CAISO PTOs and for PAC (and any other companies joining as PTOs). These costs were prudently incurred by the customers of existing CAISO PTOs and by PacifiCorp (and any other company joining as PTOs).
- An **Incremental TAC** should be added to the Base TAC for transmission investments occurring after a new PTO joins the Regional System Operator (RSO). To the extent

possible, the Incremental TAC should be based on the benefits received by each PTO.

As a general rule:

- New projects for grid reliability should be paid by the PTO where the investment is made;
- New projects to meet public policy objectives should be paid for by the PTOs incurring that public policy obligation; and
- New projects to lower generation costs should be paid for by those who receive the generation.

2. Please comment on the factors the ISO has identified in section 5 of the issue paper as considerations for possible changes to the high-voltage TAC structure. Which factors do you consider most important and why? Identify any other factors you think should be considered and explain why.

1. Is it a new or existing facility?

- The cost of existing transmission projects are assigned to the existing CAISO PTOs or PAC (and any other company that joins the RSO). **Very Important**

2. What are the facility's electrical characteristics? (voltage)

- As a general rule, projects below 345 kV should be assigned to the PTO in which the project is located. One exception to this general rule would be lower voltage lines that collect power to feed a higher voltage line. **Very Important**

3. What is the geographic scope of the project; e.g., system, regional, local? (scope)

- Geographic scope can offer evidence of the potential spread of benefits that need to be considered in setting transmission rates. By itself, geographic scope is not determinative, since in an interconnected system, the spread of benefits can exceed the precise geographic location of transmission. **Moderately Important**

4. What is the purpose of the project; e.g., reliability, economic, policy? (purpose)

- The purpose of categorizing projects is to assist in evaluation of the beneficiaries of the project and thus who should pay for the transmission segment or upgrade (e.g., reliability projects typically address localized issues and benefit one TPO). **Moderately Important**

5. Which zones or sub-regions benefit from the project? (benefit criteria)

- Zone or region benefit must be considered to determine where transmission charges can be justified. **Moderately Important**

6. When was the facility approved? (transition)

- If approved prior to a PTO joining the RSO, the cost is allocated to that PTO. **Very Important**

7. Under what planning process was the facility approved? (procedure)
  - This criterion would only apply to incremental projects approved after a PTO joins the RSO. This process needs to be developed. **Very Important**
8. What happens upon the new PTO's withdrawal? (exit)
  - The Base TAC reverts to the departing PTO and a process for allocating a share of the Incremental TAC needs to be developed. **Moderately important**
3. The examples in section 7 illustrate the idea of using a simple voltage-level criterion for deciding which facilities would be paid for by which sub-regions of the combined BAA. Please comment on the merits of the voltage-based approach and explain the reasoning for your comments.
  - As a general rule the cost of new lower voltage investments should be assigned to the Incremental TAC. Two exceptions are: (1) for collector lines to feed a higher voltage line; and (2) for lower voltage investments to enable more transfers on the higher voltage system.
4. Please comment on the merits of using the type of transmission facility – reliability, economic, or public policy – as a criterion for cost allocation, and explain the reasoning for your comments.

Typically transmission projects serve multiple purposes and it is difficult to neatly separate these. As a general rule:

- Reliability problems can typically be addressed with local investments in low voltage lines and should be assigned to the PTO.
- Economic opportunities derived from new transmission investments could be widespread or local. Efforts should be made to evaluate the beneficiaries of investments. This may best occur in PTO integrated resource planning processes.
- Investments in transmission to achieve public policy objective should be assigned to the PTOs needing the power to meet the public policy objective.
- The difficulty in developing separate cost allocation methodologies is that evaluation process and criteria should not in general be more burdensome or stringent for one (e.g., public policy driven project) than for others.

5. Please comment on the merits of using the in-service date as a criterion for cost allocation; e.g., whether and how cost allocation should differ for transmission facilities that are in service at the time a new PTO joins versus transmission facilities that are energized after a new PTO joins.

- See recommended Base TAC and Incremental TAC in #1 above.
- 6. Please comment on using the planning process as a criterion for cost allocation; i.e., whether and how cost allocation should differ for transmission facilities that are approved under a comprehensive planning process that includes the existing ISO PTOs as well as a new PTO, versus transmission facilities that were approved under separate planning processes.
- Prior to formation of the RSO, transmission investments approved by the CAISO should be paid for by customers of CAISO PTOs or customers of PacifiCorp. Costs of projects after the formation of the RSO should be allocated by the planning process developed for the RSO. The new RSO planning process needs to:
  - Be integrated with SB 350 and PAC (and other new PTO) IRP processes;
  - Be much more robust in considering non-wires alternatives (e.g., Demand Response, Distributed Energy Resources including storage, and new transmission technologies such as FASTC and Smart Wire Grid); and
  - Explicitly consider transmission capacity that could be made available through the retirement of existing generation. Such an evaluation would consider investments that could maintain or increase transfer capacity in order to compensate for any loss of spinning mass due to the power plant retirement.
- A separate stakeholder process should be established to develop the RSO planning process.
- 7. The examples in section 7 illustrate the idea of using two “sub-regional” TAC rates that apply, respectively, to the existing ISO BAA and to a new PTO’s service territory. Please comment on the merits of this approach and explain the reasoning for your comments.
- Our recommended Base TAC and Incremental TAC recognizes that cost incurred before the RSO formation were approved by different planning and decision-making processes and those costs should be borne by the PTOs subject to those respective processes.
- 8. Please offer any other comments or suggestions on this initiative.

**We urge that transmission costs must be considered along with generation savings, not in isolation.** The economic impact of transmission rate changes contemplated in the work stream defined by the issue paper must be viewed from the perspective of impacts on consumers, in whose interest every utility affected by transmission costs operates. By themselves, transmission rate impacts are a poor measure of the outcomes to be sought in resolving transmission rates for expanding regional system operations.

“Transmission Rate Shock”<sup>1</sup>:

We are very concerned that the notion of transmission “rate shock” has found its way into the issues paper and that avoiding “rate shock” is the primary driver for TAC development. Our concern arises out of the history of prior attempts to organize regional markets in the West, and out of our concern that framing the problem in this manner both elevates transmission costs to a level of concern that they do not deserve, and mistakes the boundaries of proper consideration of these costs in their larger, and we believe, proper setting.

Costs and benefits:

The evaluation of transmission benefits and costs should consider all benefits. Putting together the scope of considerations to be addressed in cost benefit study work becomes an important starting point. **Our experience with such work suggests that the list of possible cost and benefit considerations is more often than not too limited in scope, and considers too few, rather than too many potential sources of costs and benefits.** An example: lack of quantification of reliability benefits in EIM cost and benefit studies, even though both MISO and SPP representatives stated that reliability outweighed economic benefits.

In July, 2013, the WIRES<sup>2</sup> group reported a Brattle study that started with the observation that there is no generally accepted or standard menu of benefits metrics that can be adopted for the purpose of determining the scope of inquiry into transmission benefits.<sup>3</sup> Understanding of these benefits is evolving and improving, but it is not final or fixed. **The Brattle study for WIRES encourages those who set out to study transmission benefits to study a broad range of potential benefits.**<sup>4</sup> They include traditional production cost savings, additional production cost savings not typically included (such as those related to losses, outages, and contingencies, and savings associated with reduced reserves), reliability and resource adequacy benefits, generation capacity cost savings, market benefits, environmental benefits, public policy benefits, employment and economic development benefits, and a range of other project specific benefits.

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<sup>1</sup> This notion is found at page 11 and again referenced on page 14 of the issues paper.

<sup>2</sup> WIRES is a national non-profit association of investor-, member-, and publicly-owned entities dedicated to promoting investment in a strong, well-planned, and environmentally beneficial high voltage electric transmission grid. WIRES members include integrated utilities, regional transmission organizations, independent and renewable energy developers, and engineering, environmental, and policy consultants. WIRES principles and other information are available on its website: [www.wiresgroup.com](http://www.wiresgroup.com). WIRES stands for “Working Group for Investment in Reliable and Economic Electric Systems.”

<sup>3</sup> Brattle Group, “The Benefits of Electric Transmission” WIRES, July, 2013, at: <http://www.wiresgroup.com/docs/reports/WIRES%20Brattle%20Rpt%20Benefits%20Transmission%20July%202013.pdf>

<sup>4</sup> *ibid*, table ES-1, page v.

The report makes clear that some of these categories of benefits are not easily quantified. That doesn't mean they aren't benefits or that they shouldn't be considered. Just because consideration is hard doesn't mean that we can ignore these additional benefits. **The comprehensive benefits that are detailed suggest that the list of considerations on page 8 of the issues paper needs to be thoroughly reconsidered, so as to be much more complete. We ask that each and every one of the WIRES report benefits be added to the considerations that are discussed as transmission benefits from this point going forward.** If any are to be ignored or neglected, we ask that a thorough explanation be provided that details the reasons for ignoring or neglecting to consider each ignored or neglected benefit.

Additionally, broad consumer benefits are expected from joint operation and balancing authority integration, including those associated with better use of the existing system. While not the specific topic of this initiative, formation of a RSO entails moving away from rigid bi-lateral contracts and transmission contract rights. **TAC provisions should be recognize and facilitate rapid transitions to efficient and reliable wide-area operational dispatch of both transmission and generation resources.**

We must start the analysis in the right way and with the right perspective. It is not the interests of transmission owners that should animate the work on this issue, but rather the interest of end use consumers that should dominate our considerations. We recognize that there will likely be winners and losers among transmission owners and users. Losers' claims will want to dominate the analysis and discussions. They must not be allowed to do so. We should always keep in mind that generation savings are likely to provide much larger streams of benefits than any formulation of the losers' transmission cost claims, that those benefit streams could be available to provide transition support for losers' economic pain, until they can bring their costs more into line with regional average costs (not to mention costs of similarly situated low cost, best in class providers). **We should not start these discussions assuming that transmission cost shifts are the focus: focus should be on net costs and benefits to consumers, also taking into account generation benefits.**

We appreciate the work of CAISO in preparing this issues paper. As we are at the beginning of a long and complicated endeavor to build new processes and systems that serve an increasing number of states, utilities and utility customers, we ask CASIO to consider the effects of policy decisions on those immediately impacted (PAC states and customers), but also others that may choose to join this nascent market. We urge CAISO to be broadminded and carefully consider comments and concerns of entities not yet committed to a regional market. The submitting organizations offer these comments as initial thoughts. We anticipate that we will continue to refine our comments as the TAC development process proceeds.