

Stakeholder Comments Template

Review Transmission Access Charge

Wholesale Billing Determinant

June 2, 2016 Issue Paper

Submitted by	Organization	Date Submitted
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General Comments of AReM and DACC

Both the CAISO's Issue Paper and the Clean Coalition's presentation made to the Market Surveillance Committee (MSC) meeting on June 14, 2016 contain significant misstatements about transmission ratemaking. Here are some pertinent facts, many of which were lacking, misrepresented or incorrect in the CAISO's paper or Clean Coalitions MSC presentation:

- Transmission rates are designed to recover the sunk costs of transmission built by the Participating Transmission Owners (PTOs). PTOs include the investor-owner utilities (IOUs), publicly-owned utilities (POUs) and private companies, who receive approval from the CAISO and FERC for building such infrastructure.
- Load pays for transmission, not generators and not load-serving entities (LSEs).
- All transmission rates are approved by FERC.
- FERC-approved transmission rates include the PTOs' rates to recovery the costs of their transmission infrastructure (*i.e.*, their transmission revenue requirement) and the CAISO's Transmission Access Charge (TAC).
- The FERC-approved transmission rates are passed through to the IOUs' end-use customers.

¹ AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This submittal represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members respect to the issues addressed herein.

² DACC is a regulatory alliance of educational, commercial, industrial and governmental customers who have opted for direct access to meet some or all of their electricity needs. In the aggregate, DACC member companies represent over 1,900 MW of demand that is met by both direct access and bundled utility service and about 11,500 GWH of statewide annual usage.

- The CPUC does not “set the retail transmission charge,” as the CAISO states.³ Instead, the CPUC defers to FERC on transmission rates pursuant to D.99-10-057 (p. 33):

"The Commission defers to FERC's authority with regard to costs, cost allocation, and rate design for transmission and RMR costs and revenues."
- Changing the TAC billing determinants does not change the way end-use customers pay for transmission, unless the IOUs also modify the way they bill transmission to their customers and obtain FERC approval of their modifications.
- City of Palo Alto is part of the Northern California Power Authority (NCPA) Metered Subsystem (MSS).
- Metered Subsystems are POU's that were in operation before the creation of the CAISO, have their own distribution (and often transmission) system and follow their own loads. They serve all the customers located within their boundaries and have settlement quality meters at the interconnection points between their utility systems and the CAISO. This is not an analogous situation to Community Choice Aggregators (CCAs) or Electric Service Providers (ESPs).

Our discussion below builds off these facts and provides additional detail on our concerns regarding this proposal, which offers significant -- and unstated -- implementation challenges and would be discriminatory toward direct access customers if implemented.

Response of AReM and DACC to CAISO's Questions

1. At this point in the initiative, do you tend to favor or oppose Clean Coalition's proposal? Please provide the reasons for your position.

As discussed in detail herein, AReM and DACC oppose Clean Coalition's proposal, believing it to be incomplete, inaccurately presented, subject to significant implementation issues and discriminatory toward direct access customers, if adopted.

2. Clean Coalition states that TED is better aligned with the "usage pays" principle than EURL is, because load offset by DG does not use the transmission system. Do you agree? Please explain your reasoning.

No. In the first instance, we question the stated premise that the transmission rates follow the "usage pays" principle. As noted above, the IOUs' transmission rates are based on their transmission revenue requirement and are designed to recover the sunk costs of the transmission infrastructure as well as new transmission investments. Smaller end-use customers pay a volumetric transmission charge and larger end-use customers pay a demand-based transmission charge. In our experience, "usage pays" is not a defined principle in transmission rate cases.

In addition, Clean Coalition asserts that adopting TED would align the CAISO's TAC with the "Usage Pays" principle used for certain POU's.⁴ This statement is incorrect and

³ CAISO Issue Paper, pp. 5 and 6.

⁴ Clean Coalition's MSC Presentation, Slide 9.

misleading. TED-type treatment for certain POUs applies to MSSs, like City of Palo Alto. As explained above, these utilities were in operation long before the CAISO formed and operate as a self-contained system, including following load and operating their own distribution and often transmission systems. Each MSS had a pre-existing interconnection agreement with the IOU that already recovered transmission costs through Wheeling In/Out charges. Thus, there was no “usage pays” principle at work -- the MSS approach simply adopted the charging system already in place before the CAISO was formed.

Putting aside the argument of whether or not transmission rates are calculated based on a “usage pays” principle, AReM and DACC do not agree with Clean Coalition’s second stated premise that DG does not “use” the transmission system⁵ – or, more accurately, as the CAISO states, that load offset by DG does not “use” the transmission system. DG does not operate at all times and when it is not operating, the associated load is still served. Moreover, load must be followed and many DG facilities do not have the capability to follow load. Further, load must be supported by reactive power. Load following and reactive power are generally provided by resources connected to the transmission system. Clean Coalition’s argument that there is no “use” of the transmission system is not credible. However, it’s also irrelevant, because the primary issue is how best should the PTOs collect their transmission revenue requirements from end-use customers. As discussed below, TED has significant implementation and competitive challenges that have not been discussed or addressed by Clean Coalition and require immediate attention before any reasonable assessment can be made of the proposal.

3. Clean Coalition states that using TED will be more consistent with the “least cost best fit” principle for supply procurement decisions, because eliminating the TAC for load served by DG will more accurately reflect the relative value of DG compared to transmission-connected generation. Do you agree? Please explain your reasoning.

AReM and DACC do not offer an opinion on “least-cost best-fit,” which only involves procurement decisions by the IOUs. However, our understanding is that such evaluations do take into account, and give DG the benefit of, the lower losses associated with DG’s connection at distribution-level voltages.

4. Clean Coalition states that changing the TAC billing determinant to use TED rather than EURL will stimulate greater adoption of DG, which will in turn reduce the need for new transmission capacity and thereby reduce TAC rates or at least minimize any increases in future TAC rates. Do you agree? Please explain your reasoning.

No. Clean Coalition has failed to provide any credible analysis of how its proposal to eliminate the TAC would actually result in the stated benefit – namely, lower transmission charges to end-use customers “served” by DG, which would thus “stimulate greater adoption of DG.” In fact, Clean Coalition gives the impression that LSEs

⁵ Clean Coalition’s MSC Presentation, Slides 9 and 11.

currently pay the TAC and that its proposal would only represent an “accounting adjustment” to “ensure that each LSE only pays its true pro rata share of transmission usage.”⁶ But LSEs don’t pay for transmission today – the end-use customers do.

Also, the CAISO’s discussion of transmission billing by LSEs and references to LSEs having “surplus or shortfall” is inaccurate.⁷ The IOUs recover their transmission costs from all end-use customers, including customers of the ESPs and CCAs. While ESPs have the right to bill for the IOUs’ transmission costs, the bill is a simple pass-through of the IOUs’ charges.

In fact, the CAISO bills the TAC to the PTOs, which are the IOUs for the CPUC-jurisdictional customers. The IOUs recover their transmission revenue requirements from their end-use customers, which include any difference between their own transmission rates and the CAISO’s TAC bill.⁸ The IOUs would have to change the way they calculate and recover their transmission revenue requirement from their end-use customers to effect the change that Clean Coalition wants. Specifically, the IOUs would have to devise a way for LSEs to pay directly for transmission – and then obtain FERC approval for the new cost recovery methodology. Clean Coalition has failed to acknowledge this missing aspect of its proposal or provide any details on how its proposal could actually be implemented in the real world.

In particular, the proposal would require adding settlement quality meters to all the transmission/distribution interfaces and figuring out a way to calculate the TED for a particular LSE, including whether any DG MWh should be included in the TED calculation for that LSE. ESPs serve direct access customers across California in all of the IOU and CCA service territories and have no defined service territories of their own. ESPs and their direct access customers would thus get no benefit from installing DG under the Clean Coalition’s proposal, unless the CAISO and IOUs could devise an approach for allocating the MWh associated with each DG to each LSE. This enormous effort would require: identifying which customers belong to which LSE in each geographic area and classifying which LSE gets to count the DG in each geographic area for purposes of calculating TED for that LSE. We also note that customers are permitted to opt-out of CCA service, so each CCA service area includes direct access and bundled IOU customers, in addition to CCA customers, which complicates the allocation task enormously. Without the benefit of a reduced denominator in the TED calculation for the direct access customers, they would be subject to the higher rates and therefore higher transmission costs. As a consequence, we believe that Clean Coalition’s proposal would disadvantage and discriminate against direct access customers.

Moreover, the vast majority of DG being installed in California is being procured by the IOUs with costs recovered from all customers, bundled, CCA and direct access, through the Cost Allocation Mechanism (CAM). So, direct access customers would not only be subject to higher transmission rates, which are designed to benefit DG, they would also be paying the CAM costs for DG – a double whammy.

⁶ Clean Coalition’s MSC Presentation, Slide 12.

⁷ CAISO Issue Paper, p. 6.

In addition, Clean Coalition has failed to provide support for its claim that installing more DG would reduce the need for construction of new transmission. While Clean Coalition provided eye-popping “benefits” in purported reduced transmission costs,⁹ it listed no underlying assumptions and provided no analysis of how the dollar benefits were calculated. In fact, more DG can lead to increased distribution and/or transmission infrastructure costs. Determining benefits, if any, would require the CAISO’s transmission planners to conduct a detailed analysis.

5. In the issue paper and in the stakeholder conference call, the ISO pointed out that the need for new transmission capacity is often driven by peak load MW rather than the total MWh volume of load. This would suggest that load offset by DG should get relief from TAC based on how much the DG production reduces peak load, rather than based on the total volume of DG production. Please comment on this consideration.

See answer to Question 6.

6. Related to the previous question, do you think the ISO should consider revising the TAC billing determinant to utilize a peak load measure in addition to or instead of a purely volumetric measure? Please explain your reasoning.

AReM and DACC would require additional analysis and a quantitative assessment of costs and benefits of this approach to answer this question. In addition, we reiterate that changing the way TAC is calculated does nothing to obtain Clean Coalition’s desired outcome, *i.e.*, lower transmission charges for load “served” by DG, unless the IOUs also change their transmission cost recovery approach.

7. Do you think adopting the TED billing determinant will cause a shift of transmission costs between different groups of ratepayers? If so, which groups will pay less and which will pay more? Please explain your reasoning, and provide a numerical example if possible.

Yes. See answer to Question 4.

8. Do you think a third alternative should be considered, instead of either retaining the status quo or adopting the TED billing determinant? If so, please explain your preferred option and why it would be preferable.

No. AReM and DACC know of no compelling reason to change the current way transmission costs are recovered from end-use customers.

9. Do you think that ISO adoption of TED by itself will be sufficient to accomplish the Clean Coalition’s stated objectives (e.g., incentives to develop more DG)? Or will some corresponding action by the CPUC also be required? Please explain.

⁹ Clean Coalition’s MSC Presentation, Slide 20.

No. See answer to Question 4. Also, as explained in our general comments, the transmission rates charged to end-use customers are entirely FERC jurisdictional.

10. What objectives should be prioritized in considering possible changes to the TAC billing determinant?

The primary objective should be ensuring recovery of the PTOs' transmission revenue requirements from end-use customers in a non-discriminatory manner.

11. What principles should be applied in evaluating possible changes to the TAC billing determinant?

- Just and reasonable.
- Non-discriminatory.
- Avoids cost shifting.
- No added complexity.

12. Please add any additional comments you'd like to offer on this initiative.

AReM and DACC believe that this initiative is poorly constructed, based on incomplete and inaccurate assumptions, and nearly impossible to implement to achieve Clean Coalition's desired result of lower transmission charges for load "served" by DG. Moreover, if it were implemented, as Clean Coalition conceives, with transmission charges billed to LSEs, rather than end-use customers, it would disadvantage and discriminate against direct access customers, who would pay higher transmission costs, as discussed above. Further, the proposal represents a major methodological change for recovery of the transmission revenue requirement, but neither the CAISO nor Clean Coalition has provided any precedential cases to indicate that FERC might be open to approving the proposed methodology.