

# Stakeholder Comments Template

## Review TAC Structure Straw Proposal

This template has been created for submission of stakeholder comments on the Review Transmission Access Charge (TAC) Structure Straw Proposal that was published on January 11, 2018. The Straw Proposal, Stakeholder Meeting presentation, and other information related to this initiative may be found on the initiative webpage at:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/ReviewTransmissionAccessChargeStructure.aspx>

Upon completion of this template, please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com).

Submitted by	Organization	Date Submitted
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Submissions are requested by close of business on **February 15, 2018**.

**Please provide your organization's comments on the following issues and question.**

### EIM Classification

1. Please indicate if your organization supports or opposes the ISO's initial EIM classification for the Review TAC Structure initiative. Please note, this aspect of the initiative is described in Section 4 of the Straw Proposal. If your organization opposes the ISO initial classification, please explain your position.

CPUC staff supports the initial EIM classification for this initiative to seek approval solely from the ISO Board of Governors and not the EIM Governing Body. As presently stated, this initiative's principal effect will be on the volumetric billing determinant of the TAC structure. Staff supports the CAISO assertion that this initiative will not have any market-related actions that might affect either Real-Time market rules or other ISO market rules or their market outcomes and is therefore outside of the scope of the EIM Governing Body's advisory role.

### Ratemaking Approaches

2. Please provide your organization's feedback on the three ratemaking approaches the ISO presented for discussion in Section 7.1 of the Straw Proposal. Does your organization support or oppose the ISO relying on any one specific approach, or any or all of these ratemaking approaches for the future development of the ISO's proposals? Please explain your position.

Section 7.1 lays out 3 possible ratemaking approaches:

1. Base rates on cost causation identified for *past* transmission investments;
2. Base rates on cost drivers associated with *current* usage of the transmission system;

3. Construct rates to send price signals as incentives to modify future behavior.

The CPUC's Energy Division recommends approach no. 2, possibly with some consideration of blending in aspects of approach no. 3.

While we recognize that FERC ratemaking is based on embedded costs and that approach no. 1 would be consistent with embedded cost ratemaking, we reject that approach because it would not lead to efficient utilization of the transmission system. For efficiency, rates should be based on current and forward-looking cost causation, and not past cost causation which may have been very different at the times when past transmission investments were planned.

Further, we note that *current* TAC rates are based on approach no. 2 which relies on current usage and cost causation. The current TAC structure based on current system usage has sent efficient usage signals, and while it could be refined as proposed in the Straw Proposal, we see no reason to change this fundamental paradigm to instead rely either on past cost causation (which could be contentious to determine) or future cost causation (which is uncertain as well as contentious).

That said, rates provide incentives for both current and future use of the transmission system. Therefore, in adopting approach no. 2, we recommend that CAISO also consider opportunities to incorporate incentives for desired future behavior where appropriate, consistent with approach no. 3.

Finally, as we have previously commented, incentives for efficient use of the transmission system provided by TAC rates will not be fully effective without reform of current IOU retail transmission rates, and we would welcome CAISO support of CPUC transmission rate design efforts at FERC.

### **Hybrid Approach for Measurement of Usage Proposal**

3. Does your organization support the concept and principles supporting the development of a two-part hybrid approach for measurement of customer usage, including part volumetric and part peak-demand measurements, which has been proposed by the ISO as a potential TAC billing determinant modification under the current Straw Proposal? Please provide any additional feedback on the ISO's proposed modification to the TAC structure to utilize a two-part hybrid approach for measurement of customer usage. If your organization has additional suggestions or recommendations on this aspect of the Straw Proposal, please explain your position.

Yes, the CPUC's Energy Division supports a two-part hybrid approach for measurement of customer usage, including part volumetric and part peak-demand measurements. While we also would support time-of-use (TOU) volumetric TAC rates, we believe that a hybrid approach incorporating *coincident* peak demand measurements would serve equally well, and would perhaps be simpler to implement. Either hybrid or TOU rates can reflect the role of coincident peak demand in cost causation for transmission.

We do not support use of *non-coincident* peak demands in setting transmission rates for the High Voltage TAC (HV-TAC). Based on our understanding that CAISO's high-voltage transmission facilities are designed on a CAISO-system-wide basis to accommodate coincident peak demands, we do not believe that non-coincident demands reflect cost causation for these investments.

## Split of HV-TRR under Proposed Hybrid Approach for Measurement of Usage

4. The ISO proposed two initial concepts for splitting the HV-TRR under two-part hybrid approach for measurement of customer use for stakeholder consideration in Section 7.2.1.2 of the Straw Proposal. Please provide your organization's feedback on these initial concepts for determining how to split the HV-TRR to allocate the embedded system costs through a proposed two-part hybrid billing determinant. Please explain your suggestions and recommendations.
  - a. Please provide any additional feedback or suggestions on potential alternative solutions to splitting the HV-TRR costs for a two-part hybrid approach.

CAISO has provided 2 possible paths to arriving at a split between volumetric and demand-related HV-TRR rate components:

- ◆ A detailed analysis of past TPP costs, according to whether projects were driven by reliability, policy, or economic reasons.
- ◆ The ISO could apply a more straightforward split of these costs, assigning half (50%) to be collected through a volumetric approach and half (50%) through a demand charge approach.

While we believe that the detailed analysis of past TPP costs would provide useful information to inform the split, identification of cost causation for past projects is subject to uncertainty and can be contentious, especially for investments prior to 2010 which comprise over 50% of the cumulative total shown in Table 3, p.34 of the Straw Proposal.

We therefore recommend a simplified approach as in the second bullet, in which the ISO simply chooses a split based on its best judgment, as informed by historical analysis. We note that rather than a 50/50 split, Table 3 suggests that a 60% volumetric / 40% peak-related split may be preferable. We support a 60/40 split because it would provide a less dramatic shift from the current 100% volumetric TAC rates.

- b. Please indicate if your organization believes additional cost data or other relevant data could be useful in developing the approach and ultimate determination utilized for splitting the HV-TRR under the proposed two-part hybrid approach. Please explain what data your organization believes would be useful to consider and why.

CPUC Energy Division does not have a suggestion as to what additional data might be useful in determining how to split the HV-TRR. However, we caution against explicit inclusion of costs such as replacements, refurbishments, and operations and maintenance costs (as proposed by some parties at the January 18, 2018 stakeholder conference). Such costs are predominantly related to *past* transmission investments, and would therefore be less relevant to the forward-looking ratemaking approaches described in Section 7.1 of the Straw Proposal, which we generally support, i.e.,

- ◆ Base rates on cost drivers associated with *current* usage of the transmission system, or

- ◆ Construct rates to send price signals as incentives to modify future behavior.

As explained above in our response to item 2, basing rates on past investments would not lead to efficient utilization of the transmission system. Therefore Energy Division opposes basing TAC rate design even in part on such costs, as their inclusion would dilute the efficiency benefit of the ISO's preferred hybrid rate design.

5. The ISO seeks feedback from stakeholders regarding if a combination of coincident and non-coincident peak demand charge approaches should potentially be used as part of the two-part hybrid approach proposed in Section 7.2.1.2. Does your organization believe it would be appropriate to utilize some combination of coincident and non-coincident peak demand methods to help mitigate the potential disadvantages of only use of coincident peak demand charges? Please provide any feedback your organization may have on the potential use of coincident versus non-coincident peak demand measurements, or some combination of both under the proposed two-part hybrid measurement of usage approach.

The CPUC's Energy Division favors use of coincident peak demand for the demand-related portion of a hybrid HV-TAC rate. It is our understanding that high-voltage transmission facilities are designed to serve the ISO transmission grid as a whole. The current HV-TAC rate design reflects that fact by charging the same undifferentiated volumetric rate across the entire ISO system. Further, it is our understanding that the high-voltage transmission grid is planned to serve the ISO-wide coincident peak demand on the ISO transmission system. A non-coincident demand charge would therefore not reflect cost causation for that system, and hence would not foster efficiency. For these reasons, we see no value in introducing a non-coincident peak demand charge for the HV-TAC.

In contrast, we understand that low-voltage transmission systems are planned on a regional basis and the costs are currently assessed in the LV-TAC which varies by PTO. Thus, for the LV-TAC, it would be reasonable to use non-coincident demand (at the PTO level) in restructuring the LV-TAC, should the ISO wish to change the design of the current LV-TAC.

- a. What related issues and data should the ISO consider exploring and providing in future proposal iterations related to the potential utilization of part coincident peak demand charge and part non-coincident peak demand charge? Please explain your position.

Based on our response above, Energy Division does not believe that exploration of potential utilization of part coincident peak demand charge and part non-coincident peak demand charge would be worthwhile in the context of the HV-TAC.

### **Treatment of Non-PTO Municipal and Metered Sub Systems (MSS) Measurement of Usage**

6. Under Section 7.2.1.2 of the Straw Proposal the ISO indicated there may be a need to revisit the approach for measuring the use of the system by Non-PTO Municipal and Metered Sub Systems (MSS) to align the TAC billing determinant approaches for these entities with the other TAC structure modifications under any hybrid billing determinant measurement approach. Because the Straw Proposal includes modifications for utilization of a two-part hybrid measurement approach for measurement of customer usage the ISO believes that it may

also be logical and necessary to modify the measurement used to recover transmission costs from Non-PTO Municipal and Metered Sub Systems (MSS) entities. The ISO has not made a specific proposal for modifications to this aspect of the TAC structure for these entities in the Straw Proposal, however, the ISO seeks feedback from stakeholders on this issue. Please indicate if your organization believes the ISO should pursue modification to the treatment of the measurement of usage approach for Non-PTO Municipal and Metered Sub Systems to align treatment with the proposed hybrid approach in the development of future proposals. Please explain your position.

### **Point of Measurement Proposal**

7. Does your organization support the concepts and supporting justification for the ISO's current proposal to maintain the current point of measurement for TAC billing at end use customer meters as described in Section 7.2.3.2 of the Straw Proposal? Please explain your position.

CPUC staff supports retaining the point of measurement for TAC billing at the end-use customer metering site because: 1) the proponents for a change of the point of measurement have not made a sufficiently rigorous analysis demonstrating that changing this measurement point would supply the purported benefits to the majority of the users of the electric transmission grid, and ; 2) the resulting shift of embedded costs in TAC rates to customers not providing DG resources is inappropriate and unjustified because while customers of DG resources might avoid some TAC charges, all other customers would have to cover those costs proportionately. In effect ratepayers of UDCs with lower penetration of DG resources would be obligated to pay higher electric rates through no fault of their own.

8. The ISO has indicated that the recovery of the embedded costs is of paramount concern when considering the potential needs and impacts related to modification of the TAC point of measurement. The ISO seeks additional feedback on the potential for different treatment for point of measurement for the existing system's embedded costs versus future transmission costs. Does your organization believe it is appropriate to consider possible modification to the point of measurement only for all future HV-TRR costs, or additionally, only for future ISO approved TPP transmission investment costs? Please provide supporting justification for any recommendations on this issue of point of measurement that may need to be further considered to be utilized for embedded versus future transmission system costs. Please be as specific as possible in your response related to the specific types of future costs that your response may refer to.

With regard to embedded costs, Energy Division agrees with the ISO that recovery of the embedded transmission costs is of major, if not "paramount" importance. It is our understanding that modification of the TAC point of measurement could both increase TAC rates (by reducing the number of billing units over which costs are spread) and shift costs among the PTOs that pay the TAC. These changes could inject some additional risk into the recovery of the current transmission embedded costs.

1. The proposal to shift the TAC point of measurement from the customer meter to the T&D interface would entail similar cost-shift implications for future transmission costs as for embedded costs, i.e., DG customers shifting TRR cost responsibility onto non-DG customers and between PTOs.
2. The ability of distributed energy resources (DERs) to defer or avoid certain types of future transmission costs could contribute incremental cost shifts, depending on:
  - a. Whether DER contract costs would be recovered through the FERC-jurisdictional TAC versus CPUC-jurisdictional distribution rates; and
  - b. Whether a DER portfolio defers a high-voltage versus low-voltage transmission investment.

Below is a table of potential incremental cost shifts stemming from distributed energy resources (DERs) deferring or avoiding certain types of future transmission costs, depending on cost allocation and HV v. LV investments.

#### DER Potential Cost Shifts

<b>Type of Transmission Investment</b>	<b>DER payments are collected through...</b>	
	<b>TAC</b>	<b>Distribution rates</b>
<b>HV TRR</b> – assessed to entire CAISO territory	Costs shift from T&D interface(s) where DERs are deployed → the rest of the CAISO territory without targeted DER deployments	Costs shift from entire CAISO territory → UDC where targeted DERs are deployed
<b>LV TRR</b> – assessed to a specific UDC	Costs shift from T&D interface(s) where DERs are deployed → All other UDC T&D interfaces without targeted DER deployments	No cost shift: UDC avoids LV TAC increase, but distribution rates are applied equally to each customer within each UDC T&D interface

9. The ISO seeks additional stakeholder feedback on the proposal to maintain the status quo for the point of measurement. Please provide your organizations recommendations related to any potential interactions of the point of measurement proposal with the proposed hybrid billing determinant that should be considered for the development of future proposals. Please indicate if your organization has any feedback on this issue and provide explanations for your positions.

CPUC staff has no comments at this time beyond the ones stated above.

#### **Additional Comments**

10. Please offer any other comments your organization would like to provide on the Review TAC Structure Straw Proposal, or any other aspect of this initiative.