

Review Transmission Access Charge Structure Stakeholder Working Groups – August / September 2017

**Comments by Department of Market Monitoring
October 25, 2017**

Summary

DMM appreciates the opportunity to provide additional comment on the Review Transmission Access Charge (TAC) Structure initiative following the stakeholder working groups held on August 29, 2017 and September 25, 2017. DMM's comments are intended to highlight broader issues to consider in the design of an efficient TAC structure. As such the focus of these comments is largely removed from the details of Clean Coalition's proposal that was the central point of discussion at the September 25 stakeholder working group.

In the stakeholder working group held on August 29, DMM delivered a presentation highlighting the impacts on efficiency that may arise if the energy measurement point is changed while maintaining a purely volumetric TAC structure.¹ Additional details on this concept are provided below. Additionally, with regard to the possibility that a TAC structure may be designed with the purpose or intent of encouraging investment in distributed generation, DMM notes that changes in TAC structure should not be designed to incentivize a particular generation technology at the expense of broader market efficiency.

I. Changing the point of energy measurement while maintaining current TAC structure may cause inefficiency

DMM's comments on the Issue Paper highlighted the point that a volumetric TAC structure can cause market inefficiencies². These inefficiencies result when fixed costs associated with transmission infrastructure are charged to load as marginal costs of energy consumption. This can distort bids for demand such that they may no longer reflect the full willingness to pay for energy.

DMM delivered a presentation at the stakeholder working group held on August 29, 2017 in order to provide one example of how this may occur. The example in this

¹ *Spot market inefficiency from charging TAC on per MWh basis*, Ryan Kurlinski, Manager, Analysis and Mitigation, Department of Market Monitoring, California Independent System Operator, August 29, 2017, http://www.caiso.com/Documents/DMMPresentation-ReviewTransmissionAccessChargeStructureWorkingGroup-Aug29_2017.pdf

² *Review Transmission Access Charge Structure Issue Paper*, Comments by Department of Market Monitoring. July 28, 2017. <http://www.caiso.com/Documents/DMMComments-ReviewTransmissionAccessChargeStructure-IssuePaper.pdf>

presentation highlighted the specific inefficiencies that may result when only the point of energy measurement is changed but the existing purely volumetric TAC structure remains.

The underlying source of inefficiency discussed in DMM's August 29 presentation is the same as that discussed in DMM's earlier comments: fixed costs charged on a per-MWh basis distort load's willingness to pay in the wholesale spot market for energy. Under the current volumetric TAC structure, willingness to pay for energy by all end use metered load may be reduced by the amount of the volumetric TAC. This can occur because the marginal cost of energy paid by load is the true marginal cost of energy plus the amount of the volumetric TAC. For load and exports that participate in the real-time market, this situation can result in bids for spot market energy that do not reflect load's true willingness to pay³.

Some stakeholders support a change only to the point of energy measurement while maintaining the current volumetric TAC structure. DMM views this approach as incomplete and supports a full assessment of the TAC structure with the goal of improving market efficiency. By only changing the point of energy measurement and retaining the current volumetric TAC structure, TAC charges would no longer be viewed by load as part of the marginal cost of energy from "behind-the-measure" distributed generation. However, the volumetric TAC charge may still impact load's willingness to pay for energy from transmission connected generation. When only load served by behind-the-measure generation does not pay the volumetric TAC charge, distributed generation appears less expensive and as a result load's willingness to pay for this quantity of energy from transmission connected resources falls.

In a competitive market where generators offer at marginal cost, inefficiencies may result when the marginal cost of the distributed generation resource exceeds that of transmission connected resources, but load's willingness to pay for transmission connected generation is depressed by the TAC charge. A volumetric TAC charge increases load's willingness to allow distributed generation to offset some load in order to avoid TAC. As a result, a load serving entity has incentive to dispatch the expensive distributed generation resource before a less expensive transmission connected resource.

In this situation, a greater share of load may be served by distributed generation resources. However, this may not be the least-cost dispatch of generation resources. A volumetric TAC charge therefore creates an implicit, inefficient subsidy for resources behind the measuring point. A volumetric TAC charge can result in providing this subsidy to resources behind the measuring point in a way that is disproportionate to the

³ DMM understands that a revision of the structure of the wheeling access charge (WAC) applicable to exports is not currently in scope for this initiative. However, the inefficiency of a volumetric TAC or WAC applies to exports as well, and exports may be the most relevant current example of load that bids in real-time markets.

resources' expected contribution to reducing future capital expenditures on transmission.

Moving out the measuring point without first switching to a demand-based TAC charge would increase this subsidy by applying it to a greater number of resources. DMM encourages the ISO to consider these and other potential inefficiencies when evaluating changes to the TAC structure.

II. Wholesale energy market design should be efficient and technology neutral

The ISO and some stakeholders have considered whether a revised TAC structure should be designed with the specific objective of providing an investment signal to distributed generation resources. DMM believes the objective of the ISO should be to create a competitive and efficient wholesale market design which does not provide incentive or subsidy to any particular generation technology. Public policies to incentivize a particular technology are more appropriately implemented outside of the competitive wholesale market by entities other than the ISO so as to not compromise the efficiency of the broader energy market design. DMM supports a broad review of the TAC structure and supports a revised TAC structure designed to improve overall market efficiency without favoring any specific set of technologies.