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.

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.

   SDG&E Response:

   SDG&E agrees with the CAISO's initial EIM classification.

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.

   SDG&E Response:

   *SDG&E supports using the first two ratemaking approaches (*historical cost causation *and* current usage*) for the purposes of allocating the CAISO's high voltage transmission costs*

among the entities the CAISO bills for transmission costs[1] (currently the main payers of the high voltage TAC are SDG&E, SCE, PG&E and a few governmental entities). I agree.

Much of the current high voltage transmission was built on the basis of decisions made in the past to meet the projected needs of each utility. A ratemaking approach that accounts for these earlier decisions ("historical cost causation") is consistent with FERC ratemaking policies,

Similarly, a ratemaking approach that accounts for each utility's current "use" of the high voltage transmission system is consistent with FERC ratemaking policy that allocates costs on the basis of benefits garnered.

*SDG&E does not support the third ratemaking approach (*send price signals*) because (i) the costs of existing high voltage transmission facilities cannot be avoided, (ii) future maintenance and replacement costs for existing high voltage transmission facilities are generally not avoidable, and (iii) there is no evidence indicating that it would be in the public interest to adopt a transmission pricing structure for the recovery of high voltage transmission costs that discourages (or encourages) utilities from constructing new transmission.*

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.

SDG&E Response:

SDG&E supports the development of a two-part energy- and demand-based approach for allocating high voltage transmission costs among the entities the CAISO bills for transmission costs. As indicated in SDG&E's response to question 2, this hybrid approach blends two transmission ratemaking approaches supported by FERC.

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

[1] *For some utilities, the CAISO actually provides a negative bill for high voltage transmission costs; i.e., the CAISO pays the utility so that the aggregate amount of money the utility collects from its transmission customers sums to FERC's authorized high voltage transmission revenue requirement.*

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.

SDG&E Response:

At this time, SDG&E is not suggesting an alternative solution.

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.

SDG&E Response:

At the January 18, 2018 stakeholder meeting, a representative from PG&E suggested that the CAISO should do a deeper dive into the reliability/policy/economic drivers for the high voltage transmission projects whose costs are not yet fully recovered through the CAISO's existing high voltage TAC mechanism.

Upon reflection, SDG&E agrees that a such deeper dive needs to be undertaken, especially on high voltage transmission costs incurred prior to 2010. SDG&E believes the FERC will be unwilling to accept as just and reasonable an arbitrary split of the high voltage transmission revenue requirement between an energy-based TAC component and a demand-based TAC component (e.g., 50% to each).

A deeper dive would support a more causal-based allocation to the demand-based component of a revised TAC. For example, the aggregate costs of high voltage transmission projects built primarily to support grid reliability under peak loading/contingency conditions would be used to establish the portion of the aggregate high voltage transmission revenue requirement that would be allocated to utilities through the demand-based TAC component. The remaining portion would be allocated to utilities through the energy-based TAC component.

A deeper dive might also permit a division of a high voltage transmission project's costs between reliability and non-reliability services where the project's justification was multi-faceted.

The utilities may be required to provide information that predates formation of the CAISO since some high voltage transmission assets have depreciable book lives that can reach 50 – 60 years. SDG&E cautions that causal information for some of the older transmission projects may be difficult to find.

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.

    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.

        SDG&E Response:

        For the demand-based component of the high voltage TAC, SDG&E believes there is merit in using a non-coincident demand charge; i.e., determining each utility's maximum instantaneous load during each month, summing those loads, and then calculating each utility's percentage share of the summed loads. These percentages would establish each utility's share of the portion of high voltage transmission costs to be allocated through the demand-based TAC component (such portion determined as described in SDG&E's response to question 4b).

        A demand-based TAC component that is determined on the basis of each utility's non-coincident monthly peak load recognizes that high voltage transmission projects built primarily for reliability are usually identified to accommodate each utility's maximum load, whenever that may occur. These projects are usually not identified on the basis of each utility's load during the coincident peak for the CAISO Balancing Authority area as a whole.

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.

    SDG&E Response:

SDG&E believes the CAISO 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. SDG&E believes use of the CAISO's high voltage transmission system by Non-PTO Municipal and Metered Sub Systems is materially similar to the use by other utilities. Likewise, the causal factors that lead Non-PTO Municipal and Metered Sub Systems to build high voltage transmission are similar to the causal factors for other utilities.

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.

SDG&E Response:

Yes. As explained in SDG&E's October 13, 2017 comments:

> *"Changing the point of measurement for assessing the HV TRR creates an incentive to increase LSEs' procurement of distribution-connected generation because doing so shifts the allocation of the existing HV TRR from LSEs with more DG to LSEs with less DG.4 In SDG&E's opinion, this incentive has little to do with economic efficiency; it's mostly about cost shifting. A LSE's decision to procure distribution-connected generation should be based on whether such procurement is expected to reduce future costs compared to other resource procurement options, not on whether such procurement shifts existing HV TRR costs to other LSEs."*

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.

SDG&E Response:

SDG&E does not 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. SDG&E is unconvinced that a different point of measurement appreciably improves the ability of the CAISO to determine each utility's respective "use" of the high voltage transmission system, whether that be for the "use" of existing facilities or for the "use" of future facilities.

Additionally, implementation and administration of a bifurcated TAC mechanism that differentiates between "existing" and "new" high voltage transmission facilities would be complex. I agree.

9. The ISO seeks additional stakeholder feedback on the proposal to maintain the status quo for the point of measurement. Please provide your organization's 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.

SDG&E Response:

As indicated in SDG&E's responses to questions 7 and 8, and SDG&E's earlier comments in this initiative, SDG&E has not been convinced that changing the point of measurement will provide benefits sufficient to offset the disadvantages of the cost shifting incentives that such a change creates.

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.

SDG&E Response:

SDG&E understands the CAISO's consideration of possible "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," does not extend to the billing determinate data *that would be used by the CAISO to collect energy- and demand-based high voltage transmission charges from these entities.*

SDG&E believes the CAISO also needs to consider whether the billing determinant data should be based on these entities' end-user meter data, rather than the metered flow across these entities' connections with the remainder of the CAISO grid which is currently used. Such a change would place all utilities within the CAISO Balancing Authority on a common basis as regards the allocation of high voltage transmission costs.

As it stands today, Non-PTO Municipal and Metered Sub Systems have an incentive to add generation within their systems in order to shift high voltage transmission costs to other utilities. SDG&E is uncertain how strong these incentives are, and whether these incentives are being acted on. Municipal utility representatives have suggested that they are not acting on these incentives. Nevertheless, the incentive exists and the CAISO needs to carefully consider whether changes in these entities' billing determinate data are appropriate to consider as part of the instant initiative.