

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
<p><i>Meg McNaul</i> <i>Thompson Coburn LLP</i> 202.585.6940</p> <p><i>Bonnie Blair</i> <i>Thompson Coburn LLP</i> 202.585.6905</p>	<p><i>Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (the “Six Cities”)</i></p>	<p><i>Feb. 15, 2018</i></p>

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.

At this time, the Six Cities do not oppose the proposed EIM classification for this stakeholder initiative.

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.

As a general matter, the Six Cities support alignment of the TAC with cost causation principles, which encompass the concept that the beneficiaries of facilities should pay a

share of the costs for those facilities. The Six Cities also believe, however, that cost causation and benefits are broad and flexible concepts that can be cited by proponents of different cost allocation methodologies to support their preferred methodology. Thus, consideration of these principles alone may not result in the clear and unambiguous identification of any one methodology as being most reflective of cost causation and benefits, particularly with respect to cost allocation for a system as complex as the transmission grid. While various alternative approaches to cost allocation may be considered, the Six Cities observe that the current methodology has been in place for nearly two decades, and no party has demonstrated that the current TAC design is unjust and unreasonable.

The CAISO identifies several “ratemaking approaches” for consideration in this proceeding, including the concepts that TAC could be assessed based on historical cost incurrence and benefits as well as current usage and benefits. (See Straw Proposal at 24.) With respect to ratemaking approaches 1 and 2, the Six Cities believe that a cost allocation methodology for TAC should generally reflect both concepts. While not foreclosing consideration of alternatives, including consideration of the “hybrid” approach included in the Straw Proposal, the current volumetric methodology could adequately address both of these ratemaking concepts. It is not yet a foregone conclusion that the existing methodology should change, but the Six Cities are willing to engage in a continued dialogue through this stakeholder process regarding various alternatives.

With respect to the third ratemaking approach, which is oriented around using TAC as a means to shape policy outcomes, the Six Cities are not yet persuaded that this is an appropriate or useful basis upon which to modify the TAC methodology. First, it may not be feasible for applicable regulatory authorities in California to agree on the details of which policy objectives should be achieved through TAC modifications. Second, as the CAISO’s Straw Proposal appears to recognize, to the extent that any policy goals are identified that relate to end-use customers, the TAC may not be the best way to incent conduct related to consumption or usage patterns or activities. (See Straw Proposal at 25, noting that the TAC represents a limited portion of overall revenue requirements and may thus present only a muted price signal to end users.)

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.

Especially given the absence of data concerning the anticipated financial impacts of the hybrid approach proposed by the CAISO, the Six Cities are unable to support modification of the current TAC allocation methodology to reflect the hybrid approach (or any other modification) at this time. While the Six Cities acknowledge that the CAISO would like stakeholders to agree on ratemaking principles and the “merits of this proposal” before

considering impacts to individual entities (see, e.g., Straw Proposal at 38), this is not reasonable or realistic.

So that affected parties may understand the possible impacts of the CAISO's hybrid proposal, the Six Cities urge the CAISO to provide stakeholders with its TAC modification impact model at the earliest possible date. Until additional information is available from the CAISO concerning potential impacts of the hybrid and any other potential approaches, the Six Cities reserve their comments on the merits of the hybrid approach.

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.

Please refer to the comments provided above in response to question #3. In addition to those comments, the Six Cities have two general observations concerning the CAISO's proposed method of splitting the HV-TRR. First, as the CAISO seems to recognize in footnote 35 of the Straw Proposal, there does not appear to be an obvious way of splitting pre-2010 costs between reliability, policy, and economic cost categories under the proposed hybrid approach, and so the CAISO proposes to attribute all pre-2010 costs to policy projects. This seems somewhat arbitrary and imprecise, but, in the event that the CAISO moves forward with further consideration of the hybrid approach, it may be reasonable to leave the pre-2010 costs within a category associated with the current, volumetric methodology. Second, and relatedly, it appears that the hybrid proposal would allocate all of the individual PTOs' TRRs according to the reliability, policy, and economic buckets, even though a substantial portion of capital costs for the investor-owned PTOs are incurred through internal processes rather than through the CAISO TPP. It is not clear that the CAISO's three-bucket split necessarily matches up with non-TPP capital costs as incurred by these PTOs.

- a. Please provide any additional feedback or suggestions on potential alternative solutions to splitting the HV-TRR costs for a two-part hybrid approach.

Please refer to the comments provided above.

- 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.

Releasing the TAC modification impact model would be a good starting point for providing stakeholders with necessary data in order to fully assess the impacts of the changes the CAISO is considering. As explained above, stakeholders should not be

expected to support changes to the current TAC allocation methodology without full consideration of possible financial impacts.

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 Six Cities do not take a position on this issue at this time, but reserve the right to do so at a later stage of this stakeholder initiative when more information concerning the financial impacts of the approaches under consideration has been made available.

- 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.

Please see the comments provided above.

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.

The Six Cities take no position on this issue at this time. However, as discussed below in response to question #10, it may be appropriate to consider potential changes to methodology for assessing WAC to the extent necessary to ensure that PTOs continue to fully recover their TRRs.

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.

For the reasons cited by the CAISO in the Straw Proposal (see generally Straw Proposal at 38-41), the Six Cities strongly support the CAISO's proposal not to change the current point of measurement for TAC billing at the end-use customer meter.

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.

The Six Cities do not support changing the point of measurement for purposes of future cost allocation. Among other reasons, which are discussed in the Straw Proposal at pages 38-41, there is still no established correlation between changes to the measurement point for TAC and increased usage of distributed generation. As is seemingly recognized in the Straw Proposal, the TAC may not be the appropriate vehicle for incenting particular policy outcomes, as such outcomes may relate to consumption decisions by end-use customers. (See Straw Proposal at 24-25.)

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.

The Six Cities have no further feedback on this issue at this time, other than to reiterate their continued opposition to changing the measurement point for TAC.

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.

In addition to the comments provided above, the Six Cities note that the Straw Proposal does not include any discussion of whether changes would be needed to the current approach for allocating revenues to the PTOs associated with their TRRs. Has the CAISO made any

assessment of whether modification of the existing methodology for ensuring that PTOs recover their TRRs is needed in the event of possible changes to the TAC allocation methodology? Any changes to the TAC (or WAC) billing methodologies should not affect the ability of PTOs to recover their TRRs.

While the Six Cities believe that it is premature to take a position on the hybrid approach (or any other methodology) in the absence of quantitative data outlining anticipated financial impacts, the Six Cities suggest that, if the CAISO determines that changing the current methodology would result in significant cost shifts, a phase-in over time to any new methodology could dampen the impacts of such a cost shift. Once the CAISO's proposal is more refined and stakeholders have a better understanding of likely impacts, a phase-in could be part of any transition to a new methodology.