

# Review TAC Structure Revised Straw Proposal

## Comments by Department of Market Monitoring

May 10, 2018

DMM appreciates the opportunity to comment on the ISO's *Review TAC Structure Revised Straw Proposal*.

While the ISO's proposal to use a hybrid approach to assess TAC charges is an improvement over the purely volumetric approach today, eliminating a volumetric TAC billing determinant completely would further enhance spot market efficiency. The ISO demonstrates that its proposed methodology to determine the volumetric/demand-based TAC split would have resulted in 48% of the 2017 High Voltage Transmission Revenue Requirement (HV-TRR) being recovered through a volumetric billing determinant.<sup>1</sup> Though volumetric charges will be reduced under the ISO's proposal, volumetric charges could still be reflected in bids to consume energy, distorting market prices when fixed costs are reflected in marginal energy consumption. DMM encourages the ISO to consider alternative approaches to TAC or WAC billing determinants in future evaluations of TAC or WAC structures that better reflect the nature of fixed costs. Modifying the TAC structure from volumetric to demand-based may be increasingly relevant as load becomes more responsive to real-time price signals.

The ISO also explains in its Revised Straw Proposal that it is willing to revisit the TAC point of measurement issue for allocating the costs of future transmission facilities, subject to retail rate design and implementation considerations.<sup>2</sup> DMM supports the ISO's continued evaluation of this possibility. DMM believes a non-volumetric TAC structure which considers load measured at the transmission-distribution interface would recognize the contribution of distributed generation in deferring transmission investments and reducing overall TRR, while removing the market inefficiencies created by volumetric TAC charges. Modifying the TAC structure in this manner may be increasingly relevant as distributed generation increases on the CAISO system, reducing the need for transmission buildout.

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<sup>1</sup> *Review Transmission Access Charge Structure Revised Straw Proposal*, California ISO, April 4, 2018, p. 14: <http://www.caiso.com/Documents/RevisedStrawProposal-ReviewTransmissionAccessChargeStructure.pdf>

<sup>2</sup> *Revised Straw Proposal*, p. 24.