

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**.

Introduction and Summary

PG&E appreciates this opportunity to provide written comments in response to the ISO's Review Transmission Access Charge (TAC) Structure Straw Proposal ("Proposal"). PG&E is generally supportive of the Proposal, although we are still assessing the risks and benefits of the proposed reforms.

PG&E supports the ISO's rationale for maintaining the current point of measurement for TAC billing. PG&E believes a change to the point of measurement would result in a cost shift that has not been justified. PG&E echoes the ISO and other stakeholders' assessment that any changes to the point of measurement are unlikely to incent or modify current behavior due to several structural ratemaking issues. Similarly, PG&E does not support changing the point of measurement for either embedded or future transmission costs.

PG&E is generally supportive of the concept of a two-part hybrid approach, although additional details and analyses are still needed. PG&E supports the ISO's efforts to design a billing determinant that better reflects customer usage and the cost causation and benefits of the transmission system. PG&E requests that the ISO provide more details in its Revised Straw Proposal so that stakeholders can fully consider the risk and benefits of the proposed approach. PG&E also requests that the ISO consider the treatment of Non-PTO Municipal and Metered Sub Systems (MSS) in the ISO's Revised Straw Proposal.

Finally, PG&E generally agrees with limiting the scope of the Proposal to the ISO Transmission Revenue Requirement (TRR) allocation process. However, PG&E believes that other aspects of the TRR allocation process should also be explored. For example, the Proposal does not address whether generators, storage, and other users of the transmission system should pay TAC. Similarly, the Proposal does not address the allocation of regional transmission charges (i.e., the

postage-stamp rate). Additionally, although Low Voltage (LV) rates are PTO specific, the rate design for the LV TRR allocation is included in the ISO tariff and thus also should be included in the scope of this initiative. PG&E does not support a specific proposal on these topics at this time but requests that the ISO continue to include these topics in the scope of the Revised Straw Proposal or consider a second phase of this initiative that might address these issues.

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.*

PG&E agrees with the proposed 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.*

PG&E believes the first ratemaking approach put forward by the ISO, “Charge TAC according to cost causation and cost drivers when decisions to invest in transmission infrastructure were made...”, should be the primary basis to determine the most appropriate proposal for any modification to the TAC structure. Cost causation is the long-standing principle that underlies cost allocation at FERC and the courts.

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.*

PG&E is generally supportive of the concept of a two-part hybrid approach, although additional details and analysis are still needed. PG&E supports the ISO’s efforts to design a billing determinant that better reflects customer usage and the cost causation and benefits of the transmission system.

PG&E requests that the ISO provide more details in its Revised Straw Proposal so that stakeholders can fully consider the risk and benefits of the proposed approach. First, the ISO

should address the risk of stranded costs. Entities may be incentivized to try to avoid paying TAC by reducing their peak demand via storage or other resources. To the extent such reductions in peak demand do not actually reduce transmission costs, a revised TAC structure should not allow for TAC avoidance. Additionally, the actions taken to avoid TAC may not be coordinated with the Transmission Planning Process (TPP), which could result in redundant investment or inaccurate planning.

PG&E also requests that the ISO provide more information on the implementation of the hybrid approach. The ISO should provide a detailed example of how the billing determinant would be calculated. The example should include the source of the data used, the frequency and duration of the data, the methodology and formulas used for each component of the hybrid approach, the frequency of the calculation, and how the transmission costs would be allocated and recovered using the billing determinant.

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.*

PG&E is generally supportive of considering cost causation as the basis for splitting the HV-TRR under a two-part hybrid approach. The transmission system is used in many different ways, so no classification will be exact. PG&E thus cautions against basing the ratio exactly on a specific breakdown of project costs that implies a false sense of precision. However, even if the HV-TRR is split in a less specific manner, a thorough analysis of the data is needed to justify the proxy for the split.

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

PG&E does not have an alternative proposal at this time.

- 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.*

Yes, PG&E believes additional data should be considered. The ISO should consider operation and maintenance costs and replacement and refurbishment costs. The ISO could also consider data provided in the various TO Tariff rate case filings at FERC and not just the ISO Transmission Plans. Table 3 in the Straw Proposal is also inconsistent in that it considers Policy projects prior to 2010 but not Reliability projects. Any data set used as a basis for splitting the HV-TRR costs should be as consistent and comprehensive as feasible.

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 ISO should first determine if there is a significant difference between using a coincident peak (CP) versus a non-coincident peak (non-CP) demand charge. The ISO should then weigh the additional complexity to using a combination versus whether there is a material impact. The ISO should also consider whether CP or non-CP is more reflective of the basis for transmission planning and cost causation.

- 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.*

PG&E believes that the number of periods (e.g., 12 monthly peaks) used in the definition of peak demand is just as important as the difference between CP and non-CP. The number of periods may influence whether the difference between a coincident peak and non-coincident peak is material. The number of periods also impacts how distinct the peak demand component of the billing determinant is from the volumetric component. The ISO should also consider the impact of the peak shifting over time and plan to update the basis for the demand component frequently. Similarly, the ISO should consider the potential risks and implications of shifting peak demand over time. If transmission is built to meet a peak reliability need and that peak period then shifts over time, the ISO should assess whether the allocation of those costs would shift as well.

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.*

PG&E requests that the ISO consider the treatment of Non-PTO Municipal and Metered Sub Systems (MSS) in the ISO's Revised Straw Proposal. The revised proposal should evaluate the risks and impacts and then propose whether or not to make a change to the billing determinant for Non-PTO Municipal and MSS. The ISO should consider whether changing the billing determinant would reduce the risk of misalignment, ensure fair treatment, and ensure that common principles apply for all entities. The ISO should also consider whether any changes might cause implementation issues or a dramatic impact to specific entities. The Brattle study should also be expanded to consider Non-PTO Municipal and MSS.

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.*

PG&E supports the ISO's rationale for maintaining the current point of measurement for TAC billing. A change to the point of measurement would result in a cost shift that has not been justified. PG&E also echoes the ISO and other stakeholders' assessment that any changes to the point of measurement are unlikely to incent or modify current behavior due to several structural ratemaking issues. In particular, PG&E has concerns that distribution losses may not be accurately considered with a change in the point of measurement and may unintentionally distort cost allocation. Finally, PG&E does not believe that changing the TAC structure is an effective or appropriate method for attempting to change generation procurement processes. Instead, procurement is better addressed in the ISO's TPP and the CPUC's Integration Resource Plan (IRP) proceeding.

- 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.*

PG&E does not support changing the point of measurement for either embedded or future transmission costs. The same problems with changing the point of measurement apply to both embedded and future transmission costs. The change would result in a cost shift that has not been justified; there are several structural ratemaking issues; and distinguishing between future and embedded transmission costs would add significant complexity to the TAC structure.

PG&E also argues that the complex linkages between disparate transmission cost drivers and the range of benefits provided by the transmission system prevent simple cost classification between embedded and future costs. The benefits of transmission system connectivity accrue to

all providers and users of energy, who depend on the year-round availability, economies of scale, and access to markets provided by the system as a whole. To the extent that future transmission costs can be deferred, avoided, or allocated, PG&E notes that the ISO's transmission planning process is the appropriate venue to evaluate and approve investment decisions. Consideration of these factors within the transmission planning process offers a more precise opportunity to evaluate costs and benefits in the context of specific future needs; by comparison, the cost signals provided by further changes to the wholesale rate structure are much less precise or effective.

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.*

PG&E supports the ISO proposal to maintain the current point of measurement for TAC billing, and the ISO should ensure that all data used for all of the components of a hybrid billing determinant should maintain the current point of measurement (i.e., at the customer meter).

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.*

PG&E does not have any additional comments at this time.