## Stakeholder Comments Template

## Transmission Access Charge Structure Enhancements: Draft Final Proposal

This template has been created for submission of stakeholder comments on the Transmission Access Charge Structure Enhancements: Draft Final Proposal that was published on September 17, 2019. The Transmission Access Charge Structure Enhancements, 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/TransmissionAccessChargeStructureEnhancements.aspx

Upon completion of this template, please submit it to initiativecomments@caiso.com Submissions are requested by close of business on **October 9, 2019.**

| Submitted by | Organization | Date Submitted |
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| *Doug Karpa (415) 860-6681* | *Clean Coalition* | *October 9, 2018* |

**Please provide your organization's comments on the following issues and questions.**

### Hybrid Billing Determinant Proposal

Please state your organization's position on the Hybrid Billing Determinant Proposal as described in the Transmission Access Charge Structure Enhancements: Draft Final Proposal: (Support, support with caveats or oppose)

If you replied supports with caveats or opposes, please further explain your position and include examples:

- The Clean Coalition supports the proposal with caveats.

The Clean Coalition believes and has demonstrated that the Hybrid Demand Charge proposal would best achieve its ends by measuring transmission use at the T-D interface. Both the demand charge to reflect efficient transmission usage and the allocator, which reduces the demand charge as transmission use becomes more efficient, are valuable improvements. However, both aspects could be significantly improved in terms of both fairness and market impacts by ending the exclusion of in-front-of-the-meter (IFOM)

resources from being recognized for their contributions to reducing peak demand. This could be done either by measuring their effects on peak transmission demand at the transmission-distribution boundary or through other methods of measurement or estimation.

In principle, demand charges can appropriately assign cost recovery to those entities with higher peak transmission flows, which at least to some degree drive transmission spending. Those utilities (or their ratepayers) which have made efforts to address those peak transmission flows will see those efforts reflected in lower costs allocated to them, as seems fair. In addition, the allocator reduces the total pool of costs recovered through demand charges as the problem of inefficient use of the transmission system decreases as overall transmission flow profiles become less peaky. Both concepts have merit and deserve support, but are not as well implemented as they could be.

The main shortcoming of the current structure is that it is inconsistent in recognizing reductions in peak transmission flows from different technologies and locations. The hybrid system correctly recognizes reductions in peak transmission flows from energy efficiency, demand response, load shifting, behind-the-meter generation, behind-the-meter storage, and IFOM generation and IFOM storage in non-PTO territories. IOUs and other PTO load-serving-entities should not be uniquely excluded from recognition of the value of IFOM distributed energy resources (DER). These resources reduce coincident *transmission* peak demand in precisely the same manner as behind-the-meter-resources. The transmission system sees no difference whatsoever in the impacts of DER whether the resources are connected on the distribution grid or behind the customer meter. Thus, there does not seem to be a solid rationale for excluding one specific class of distributed resources in one class of territory from recognition in the demand charge calculation. Instead, all IOUs should see the same reduced demand charges for all DER that reduce peak flows as non-participating Municipal utilities or metered sub-systems (MSS) do.

Furthermore, this discrimination by technology and interconnection point does not comport with directives from FERC that tariffs should be non-discriminatory. Indeed, FERC Order No. 1000 expressly sets out two goals for the order, the first of which is to “ensure

that transmission planning processes at the regional level consider and evaluate, on a non-discriminatory basis, possible transmission alternatives."[1] Although cost allocation is somewhat removed from the planning process, the principle still applies that discriminatory tariffs should be avoided absent a just and reasonable rationale for such discrimination. Here, it is unclear that political support or inconvenience meet that standard. Absent a solid policy rationale, CAISO should continue to consider the merits of applying the demand charge component to transmission downflows rather than customer downflows.

While we do understand the practical limitations of metering and the political considerations, we would appreciate a recognition in the final staff proposal that rate design principles do not provide much rationale for this discrimination among peak demand mitigating resources. We are also mindful of CAISO's continued openness to the principle of non-discriminatory tariffs, so we urge CAISO to state that CAISO may support action based on an analysis of the relative cost of such a reform or in conjunction with alignment of cost allocation with coordinated reforms in specific rate structures or tariffs external to ISO jurisdiction.

We also appreciate that CAISO is willing to move forward with a proposal despite problematic aspects from a rate design perspective.

- We would request that CAISO acknowledge that there are several arguments against the hybrid proposal that in fact are not fatal to implementation:

First, CAISO should acknowledge that the hybrid proposal will shift embedded costs from one utility distribution company to another. Even though those costs were incurred based on historical decisions, this proposal allocates historical embedded costs based on contemporaneous use. This is entirely appropriate and in line with FERC's approach under Order no. 1000. Cost shifts of embedded costs are entirely appropriate, especially when the existing system fails to correctly reflect cost causation. In this case, cost shifts are

[1] Ferc Order No. 1000 at 10.

warranted because they represent an improvement in cost allocation. Cost shifts are warranted also when the beneficiaries shift in ways not originally envisioned. Again, cost allocation should reflect at least in part the beneficial uses of an existing system, and allowing for cost shifts in allocation accomplishes this.

Second, CAISO should expressly acknowledge that this proposal does not allocate historical embedded costs based on historical cost drivers (and neither does the current system). In fact, CAISO recognizes that costs should *not* be allocated based purely on historic cost drivers (e.g., the "load for which the facilities were built"), because that invites free-rider problems as others use the system. Instead, CAISO has expressly rejected engaging in any kind of archaeological expedition to unearth the specific planning documents that were used to plan the existing transmission system and accepted that contemporaneous cost allocation should reflect the patterns of current use. In both the existing structure and the proposed enhancements, CAISO has rejected locking in cost allocation to historical load because that would mean that "old load" would pay the full cost of the transmission system, while "new load" pays nothing despite the fact that "new load" makes use of the existing transmission infrastructure.

Third, we understand that CAISO does not seek to influence market behavior with its rate making, but it should at least recognize and acknowledge that its rates can and do influence market outcomes, whether CIAOS seeks it or not. Indeed, such considerations are expressly called for in FERC order no. 1000. Such an analysis of market impacts is quite distinct from attempts to be a major driver of rate making. Thus, while such considerations might not drive rate-making, neither should rate-making be done completely in the absence of consideration of such factors.

Finally, CAISO should acknowledge that tariff changes can proceed, even without other retail tariff changes outside of CAISO's jurisdiction that might deliver even greater benefits all Californians. The proposed demand charge will not send price signals to reduce peak loads without additional retail rate structures, and yet this fact rightly does not deter CAISO from moving forward. Demand charges will be applied to UDCs, but the demand charge will not send a signal to the CCAs that play a major role in shaping peak transmission load through customer tariffs and procurement decisions, and similarly changing the CAISO tariff will send no price signal to consumers whose decisions directly

affect peak flows. Thus, without additional changes made by IOUs or the CPUC on other tariffs and rates, the demand charge will perhaps allocate costs fairly, but will not influence behavior to reduce future costs.

- On a technical level we support several aspects of the rate design:

First, we support the use of an automatically adjustable allocator that reduces the demand charge component as transmission use becomes more efficient and load factors increase. The proposed allocator that ties the demand charge component to the system load factor appears to work well for this purpose.

Second, the use of 12 CP is appropriate as a basis for cost allocation for three reasons. First, it avoids an impracticable attempt to tie cost allocation strictly to past transmission decisions. As discussed in the stakeholder meeting, this would be unworkable, and as mentioned above, this would create major free rider problems for load that develops after transmission is planned and deployed. Second, the 12 CP will do a good job of using multiple peaks to smooth out the variability in transmission charges that would result from a 1 CP or 4CP approach. Finally, because the planning peaks at the local or regional level aren't always coincident with annual system peaks, the 12 CP approach is likely to better capture the geographic diversity in peak usage that doesn't necessarily drive system peaks, but still drives local and regional transmission planning. For example, a local area or region that had a local peak at a different time of year than the rest of the state would still drive transmission investment to accommodate its peak. Using a single system peak would completely miss this local peak cost driver. However, local and regional peaks that occur at times of year other than system peak could still be captured if that local peak contributes to one or more of the 12 coincident peaks throughout the year.

Finally, we also support the use of the prior year's historical peaks for establishing the next year's charges. While this theoretically might not be the most accurate approach, the tremendous increase in simplicity offsets whatever marginal loss of theoretical accuracy may be gained from more complex systems. We point out this is an aspect that this hybrid approach shares with the point of measurement proposal, in that the point of

measurement proposal treats all IFOM distributed resources identically, even though the reality is that different locations differ in their value. However, accounting for all site-specific allocations would be a vastly complicated task for a marginal improvement in what is still a just and reasonable approach under a simpler system.

**Enhanced language on the Point of Measurement proposal**

We understand CAISO's political needs to bring forward proposals with near unanimous support. However, we believe it would be valuable to CAISO to nonetheless state the merits of the point of measurement proposal accurately for the record. The Clean Coalition appreciates the time taken by CAISO and parties to consider the issues related to DER development and its role in transmission spending, and the summary of this issue included in the Draft Final Proposal. We request CAISO staff consider the following suggestions for textual edits to more accurately reflect the status and conclusions or positions arrived at through this stakeholder process:

First, CAISO should include language in the final proposal that explicitly states that all transmission rate designs involve allocating costs based on contemporaneous usage in order to avoid free rider problems of failing to allocate costs to new users. This necessarily creates a cost shift of embedded costs, but failure to do so would be inappropriate. This is a characteristic of both the hybrid determinant proposal and the point of measurement proposal.

Second, CAISO should also expressly recognize that the effects of even unplanned DG in offsetting transmission peaks (even if not on a 1MW for 1MW basis) mean that the cost shifts to recognize these do in fact have a justification, both in terms of how LSEs and customers have reduced strain on the transmission system to the benefit of all and in terms of the potential for incentivizing a cost-effective system. Indeed, this fact not only underlies the Point of Measurement proposal, but it also is implicit in the demand charge component of the hybrid billing determinant proposal. (If local resources didn't reduce impacts on the transmission system, then recognizing their impacts on reducing transmission flows would be inappropriate.)

Consequently, we believe CAISO should rephrase or remove statements that "widespread DG procurement and operation is de facto net beneficial is not correct if DG resources are not carefully planned, developed, and operated in ways beneficial and cost-effective to the grid." Such statements are considerably overstated. Even unplanned deployment of DG will, in aggregate, reduce transmission flows, even if not as cost-effectively as planned deployment might. For example, CAISO has clearly found that unplanned behind-the-meter energy efficiency and distributed generation does work to reduce transmission needs. Even if some unplanned DG doesn't have much impact, in aggregate a sufficient fraction will be in the right places that DG in aggregate will reduce peak loads. The only way this would not be true would be if load served by DG would otherwise simply be dark during peaks, which is implausible. Ultimately, the record shows that in fact one can "assume that transmission costs are reduced by the mere existence of DG" even if DG is not "expressly and purposely designed to avoid or defer more expensive investments in the transmission system." The fact that unplanned DG might not be 100% effective in offsetting transmission planning needs does not mean that unplanned DG is not 60% or 80% or even 100% effective. That number is certainly not 0%, as this language appears to imply. Indeed, the Point of Measurement Proposal would capture this phenomenon precisely: If a particular DG resource did not alleviate flows on the transmission system, then it would have no impact on the transmission peak or energy downflows and so would not result in any change in the cost recovery based on that transmission energy downflow or demand charge.

In addition, CAISO should also clearly state that DER contribute substantially to reducing the need for new transmission infrastructure, as reflected in the effect of forecast DER on the TPP.[2] The Draft Final Proposal does note that the TPP "accounts for the impacts of DG and other non-wire alternatives in avoiding future transmission costs," but fails to quantify this value in any way. The TPP does not capture the effect of avoided transmission investment that would occur from additional DG. It neither models nor quantifies the

[2] http://www.caiso.com/Documents/BoardApproves2017-18TransmissionPlan_CRRRuleChanges.pdf
The 2017-2018 Transmission Plan recommends the cancellation and modification of transmission projects, avoiding an estimated $2.6 billion in future costs. "The changes were mainly due to changes in local area load forecasts, and strongly influenced by **energy efficiency programs and increasing levels of residential, rooftop solar generation.**" (*emphasis added*)

counter-factual costs that would otherwise occur with greater DER than the business-as-usual forecasts already embedded in planning assumptions. It certainly does not attempt to identify an optimal amount of DG for overall system costs. Equally important, CAISO should clearly acknowledge that there is no mechanism in place to allocate these savings to the LSE associated with the DER procurement or deployment. As such, avoided costs for new investment are allocated equally to all service territories regardless of LSE differences in avoided cost causation.

Third, CAISO is entirely correct that achieving the full cost savings from a correct cost allocation for DG-served load would not have the full potential cost savings without changes in UDC rates and tariffs or other mechanism. However, this is true of any tariff design CAISO might construct. As CAISO has recognized correctly with its hybrid determinant, just because a tariff might not be sufficient by itself to send price signals does not mean it is not justified as a just and reasonable tariff, both as a fair allocation reflecting benefits and use and also as a necessary condition for an efficient market, even if not sufficient in itself.

Therefore, CAISO should expressly acknowledge in the final proposal language that CAISO could move forward with changing the point of measurement even without attendant changes in retail tariffs. (We understand there are reasons why CAISO declines to do so at this time, but this is not one of the better-grounded reasons.) Independent of the market impacts, basic fairness and rate design principles point toward removing the exclusion of IFOM distributed resources in IOU territory from the same recognition for their benefits in reducing peak flows as all other DER have.

Even in the context of influencing market incentives, CAISO does not have to wait for other regulatory bodies. The ISO has correctly pointed out that addressing the Point of Measurement is not sufficient in and of itself to provide the appropriate price signal in procurement processes, but it is a necessary component and is the component that is subject to CAISO jurisdiction. The multi-jurisdictional nature of transmission cost allocation requires coordinated action across agencies, with each taking responsibility for the areas within its purview.

Fourth, CAISO should correct its framing that ancillary services are only associated with the transmission grid. As we have pointed out previously, the services CAISO cites as

being purely transmission services are in fact jointly provided by distributed and remote generation. For example, maintaining frequency and voltage are NOT solely the province of transmission connected resources, but rather result from the joint action of all generation, transmission- or distribution-connected. If any of those resources fall short or over-generate, frequency balance is not maintained. Thus, the contribution to maintaining frequency is directly proportional to the energy delivery as well. Similarly, frequency regulation services (e.g., adjusting frequency to correct excursions) can be derived from any combination of distribution- or transmission-connected resources. Voltage support can also be derived from either category of resource (and indeed is best delivered by resources close to load). Suggesting that these services are purely or inherently the unique product of transmission-connected resources is simply inaccurate.

We agree with others that CAISO should make some effort to quantify the value of stand-by services, and the contribution of frequency and voltage services to customers, separately from the value of energy delivery. Simply because ancillary services exist does not mean that the primary use and justification of the transmission grid isn't to deliver energy. Ancillary services are valued in the market, and those values should be investigated as a preliminary estimate of the relative value of these services.

Additionally, CAISO should correct misstatements regarding the position of proponents of the Point of Measurement Proposal. Addressing the Point of Measurement issue, the ISO "concurs with the views expressed by many stakeholders that *it is not accurate to suggest* robust procurement and operation of local distributed energy resources is viable independent of, or distinct from, the transmission grid. The transmission system is integral to the delivery of all energy sources interconnected to the grid."[3] However, this statement implies incorrectly that proponents have suggested that the transmission system is not an integral component of the state's electric system. The phrase "it is not accurate to suggest" should be deleted because no one has suggested this.

Next, CAISO should clarify that the planning process CAISO recommends does not currently exist, so implementing CAISO's recommendations would require regulatory

[3] Draft Final Proposal at 38

actions by other bodies. The ISO correctly states, "The costs of capital-intensive transmission that connects distant renewable resources should factor into whether or not those distant renewable resources are selected for procurement, and who pays for the transmission."[4] We agree. However, while the ISO believes this consideration is best accomplished in an integrated planning and procurement process by the relevant local regulatory authorities, this fails to note that there is no integrated procurement process that accounts for allocation of existing transmission resources or the effect of procurement by independent agencies on the transmission planning process (TPP).

Nearly all active and forecast procurement is occurring through CCAs, which select resources to meet their obligations primarily based on the costs they incur. These contracts are not subject to CPUC approval or to the Commission's Least Cost Best Fit methodology, or any consideration of future transmission needs or cost mitigation plans. As such, the development of a price signal through TAC allocation is necessary to accomplish the goal that the ISO and ratepayers agree upon, and the Point of Measurement Proposal is designed precisely for this purpose. No alternative means of linking procurement to transmission impacts currently exists, nor has any other been proposed. Thus, while CAISO's proposal has merit, it does not fully reflect the current reality of procurement decisions, and so relying on integrated planning processes would be inadequate to factor in the costs of transmission.

Finally, we would appreciate it if CAISO were to acknowledge that proponents of the Point of Measurement Proposal in fact sought to address the concerns of opposing stakeholders and in some instances revised the proposal in light of points raised by opponents of the proposal. While the ISO appropriately reflects concerns raised by opposing stakeholders in addressing future consideration of the point of measurement,[5]it would also be appropriate to reflect that proponents have responded in depth to the concerns raised by other stakeholders, and have proposed options to address, mitigate, or avoid these issues, including implementing a virtual point of measurement adjustment

[4] Draft Final Proposal at 38
[5] Draft Final Proposal at 39-40

utilizing data provided by each LSE's scheduling coordinator. While consensus was never achieved, concerns were not left unanswered.

### Additional comments

Please offer any other feedback your organization would like to provide on the Transmission Access Charge Structure Enhancements: Draft Final Proposal.

We fully support CAISO's call to the state regulators, especially the CPUC, to take up a comprehensive review of the full suite of cost allocation mechanisms, including the CAISO tariff, the IOU tariffs, and any retail rates or other mechanisms as may be needed. Such a process might also result in improved planning efforts, as CAISO has envisioned. The resulting roadmap will allow all the entities with jurisdiction to work together on the various components of the mechanism whereby costs are allocated to ratepayers. Indeed, the overall procurement process could be greatly improved by incorporating these transmission impacts in both planning and procurement, and we look forward to working with CAISO to implement all these enhancements.

We also request that CAISO recognize that in fact a wide range of stakeholders have supported the Point of Measurement Proposal, even if they do not have the extensive resources to participate in CAISO stakeholder processes that the utilities and other corporate entities have. CAISO has repeatedly noted that "most stakeholders that provided feedback" opposed the Point of Measurement Proposal. While these are accurate statements, they fail to capture the significant fact that numerous stakeholders relied upon the Clean Coalition to represent their support for correcting the issues that the Point of Measurement Proposal seeks to address, and their support for this approach in concept. Reference to the support of more than 80 organizations listed in Clean Coalition comments is appropriate to note in the final draft, while acknowledging that few were able to participate actively in the stakeholder process.

Finally, we wish to thank CAISO staff and the other stakeholders for their fantastic efforts to bring clarity and excellent thinking to the joint process of considering changes

that are likely to shape the California energy economy for many years to come. It has been a genuine pleasure and a tremendous learning experience.

Sincerely,

Doug Karpa

Policy Director

Clean Coalition