California ISO
Cost Allocation Guiding Principles

Clean Coalition comments on Draft Final Proposal

Kenneth Sahm White
Director, Economic & Policy Analysis Programs
Clean Coalition

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The Clean Coalition submits the following brief comments on the Cost Allocation Guiding Principles Draft Final Proposal following the Stakeholder Meeting March 19th, 2012

The Clean Coalition greatly appreciates and supports the ISO in developing and applying consistent guiding principles, and the stakeholder involvement in the process. The use of guiding principles clearly aids in consistent and coordinated policy and tariff development and evaluation of proposals. We commend staff for putting forward a thorough and well-developed approach consistent with applicable orders and standards.

I. Draft Guiding Principles

As has been noted by staff and stakeholder comments, individual principles may frequently drive policy in competing or contradictory directions. We agree with these comments and recommend that ISO clearly notes that the Principles must be applied in the context of evolving trends in State goals, existing programs, and available information. ISO should affirm that the Guiding Principles are not intended as deterministic rules but as a foundation and minimum set of values to weigh and balance in creating policy; the adoption of these Principles is not intended to limit consideration of additional factors wherever relevant.

- Causation

We support the ISO causation principle as entirely appropriate. However, the application of this principle has proven problematic and we are particularly concerned about its application to parties not participating in the ISO services. We strongly recommend defining boundaries for ISO cost allocation and limiting responsibility to parties seeking use of ISO services. We also believe that it is necessary to differentiate between costs associated with actual system requirements to provide contracted services and those costs associated with accommodating prior commitments for services provided to third parties under different cost allocation procedures. Transition costs are not appropriately the responsibility of new entrants triggering adjustments, and failure to differentiate these can lock in outdated arrangements and inhibit market development.

- Comparable Treatment

We support maintaining this principle.

- Accurate Price Signals

While accurate price signals are essential in providing cost transparency and economically efficient implementation, the methodology chosen for determining appropriate and accurate costs and allocation will clearly influence the accuracy of price signals. The prior principle of "Policy Alignment" may appropriately be applied in selecting the cost determination and allocation methodology, and state and federal policies should be a factor in such determination. Long-term transformation of energy resources and infrastructure in line with state or federal goals will be unduly hindered if price signals are designed to maintain the status quo rather than evenly distribute the costs of meeting such goals across all market participants. We have seen clear and inappropriate examples of this in ISO's and other state agencies' consideration of integration of renewable generation. The broad classification of renewables as a separate and distinct category for integration creates a different price signal than, for instance, the cost of retaining legacy baseload facilities in a new environment requiring flexibility. We support retaining the goal of Policy Alignment within the principle of Accurate Price Signals.

- Incentivize Behavior

Providing appropriate market incentives is key to economic efficiency in market development and can complement accurate price signals in achieving broader policy goals. This should be retained as a Guiding Principle in cost allocation. However, the cost drivers must be appropriately identified. In some cases the costs are related not to the new actions of a market participant, but to pre-existing contractual relations between the ISO and a third party for which the participant should not bear responsibility, rather the costs should be assigned so as to incent changes in ISO contractual practices, for example. Consideration of the causal cost factors is essential in efficiently targeting incentives, and this should be noted in the definition of the Principle.

- Manageable (Market participants should have the ability to manage exposure to the allocation).

We support the ISO's position on this Principle and agree that allocating costs in accordance with these principles, particularly by cost causation, may result in allocations of costs that were not transparent and contemplated at the time parties entered into existing contractual arrangements. We support the ISO in establishing appropriate transition periods and/or mechanisms for parties to assign costs in a manner that is consistent with their contractual agreements, and add that the cost of these transition periods should be distributed equally.

- Synchronized

We agree that no changes are required in this principle

- Rational (Implementation costs/complexity should not exceed the benefits that are intended to be achieved by allocating costs)

We agree that no changes are required in this principle and support greater priority being given to its application, recognizing that simplicity is a very significant economic efficiency.

II. Application of Guiding Principles, Second Stakeholder Initiative Topics

> The ISO seeks stakeholder comments regarding the prioritization of applying the cost allocation principles to other product allocations and uplifts to be reviewed in the second stakeholder initiative.

Distribution level generator interconnection

The Clean Coalition has been actively engaged in interconnection reform in California. As evidenced by the Rule 21 Phase I Settlement Agreement submitted March 16th to the CPUC, all parties to the Settlement agree that cost allocation uncertainty and complexity is a critical high priority issue. This uncertainty is severely impacting the effectiveness of interconnection under Rule 21, IOU GIPs (WDAT/WDT), and the ISO's GIP, cutting across jurisdictional and regulatory boundaries in both impact and processes. The leading factor in delayed cost determination for distribution-interconnected projects is consideration of cost responsibility relating to transmission system impacts, even for projects not seeking use of the transmission system. Uncertainty regarding cost responsibility and allocation results in multi-year delays for renewable energy projects of no more than a few megawatts that would otherwise be approved, constructed, and delivering energy long before annual transmission system studies are completed. These delays are severely hampering effective implementation of multiple State renewable procurement programs, development of this economic sector, and the associated benefits in employment, air quality, and State revenues.

Current practices regarding distribution-interconnected facilities do not appear to be consistent with the proposed Principles, in particular: Non-comparable treatment between various distribution level project categories that have similar impacts on transmission systems; implementation costs and complexity that severely impede participants ability to manage cost exposure and appear to exceed the benefits intended by current cost allocation; assertion of cost causation unrelated to provision of ISO services; and price signals that do not support economic efficiency.

We strongly recommend that the ISO address cost allocation principles for distribution-level interconnection at the earliest opportunity.

We appreciate this opportunity to comment.

Sincerely,

Kenneth Sahm White
Director, Economic & Policy Analysis Programs
Clean Coalition
2 Palo Alto Square
3000 El Camino Real, Suite 500
Palo Alto, CA 94306
831 425 5866