



## Stakeholder Comments Template

### Review TAC Structure Revised Straw Proposal

This template has been created for submission of stakeholder comments on the Review Transmission Access Charge (TAC) Structure Revised Straw Proposal that was published on April 4, 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](mailto:initiativecomments@caiso.com).

Submissions are requested by close of business on **April 25, 2018**.

Submitted by	Organization	Date Submitted
Doug Karpa	Clean Coalition	25 April 2018

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

#### **Hybrid billing determinant proposal**

**1. Does your organization support the hybrid billing determinant proposal as described in the Revised Straw Proposal?**

In principle, demand charges can reflect the use of the transmission grid and thus allocate costs appropriately to those who are using the transmission system (and thus benefitting) and also incentivize mitigation of transmission system impacts by UDCs. However, to have these impacts, the demand charges of course must reflect peak *transmission* demand rather than demand somewhere else on the system. Unfortunately, the current hybrid proposal neither allocates costs based on the principles outlined in FERC Order no. 1000 that cost allocation should follow the beneficiaries of the system as the better measure of cost causation and in light of the market incentives created, nor does it allocate costs based on CAISO's preferred principles of allocating embedded costs based on historical cost drivers and avoiding cost shifts.

CAISO's current hybrid system suffers from three substantial flaws under CAISO's preferred alternative rate design principles of following historical cost causation and avoiding cost shifts. First, the proposed demand charge doesn't reflect impacts to the transmission system. Second, the proposed demand charge does not allocate historical embedded costs proportional to historical cost drivers and so does not assign transmission costs to the customers for whom the system was built. Third, the proposed demand charge would create substantial unjustified costs shifts that would allow UDCs to avoid paying TAC for a system built for their customers.

The Clean Coalition believes that the inconsistency between a sensible hybrid demand charge design and CAISO's chosen rate design principles demonstrates that the alternative rate design principles are ill-advised, rather than an indictment of the concept of the hybrid proposal.

First, CAISO has adopted a novel interpretation of "cost causation" that runs counter to the analysis in FERC Order no. 1000. As we noted in our prior comments, FERC is crystal clear that "cost causation" turns BOTH on the analysis of the benefits of transmission infrastructure as well as 'who the system was built for.' Without the focus on beneficiaries, "cost allocation methods used by public utility transmission providers may fail to account for the benefits associated with new transmission facilities and, thus, result in rates that are not just and reasonable or are unduly discriminatory or preferential."<sup>1</sup> In rejecting a purely backward-looking approach based on transmission planning, FERC "affirmatively require[es] costs of transmission facilities to be allocated to beneficiaries..." in FERC Order no. 1000.<sup>2,3</sup> Thus, "the cost causation principle provides that costs should be allocated to those who cause them to be incurred *and those that otherwise benefit from them.*"<sup>4</sup> FERC expressly directed that transmission cost allocation follow the beneficiaries, whether or not they were planned for, because otherwise "the Commission could not address free rider problems associated with new transmission investment."<sup>5</sup> Unfortunately, CAISO has rejected this

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<sup>1</sup> FERC Order no. 1000, Paragraph 495.

<sup>2</sup> FERC Order no. 1000, paragraph 507.

<sup>3</sup> We note that in the Issue Paper, CAISO cited to a 1994 policy statement, which has been superseded by FERC Order no. 890, which in turn has been superseded by FERC Order no. 1000. Furthermore, the straw proposal cites a FERC decision from 1997 as being consistent with FERC Order No. 1000, even though FERC Order No. 1000 was not issued until

<sup>4</sup> FERC Order no 1000, Paragraph 535.

<sup>5</sup> FERC Order no 1000, Paragraph 535.

balanced approach by ignoring the allocation of benefits and rejecting the prospective reallocation of costs as the beneficiaries change. Courts have similarly endorsed “[FERC’s] system-wide benefits analysis [as meeting] the requirements of the cost causation principle, that is, to compare ‘the costs assessed against a party to the burdens imposed or benefits drawn by that party.’”<sup>6</sup>

Second, CAISO appears to have adopted a principle that rate designs should not be permitted to shift costs among UDCs even if the new rate design better reflects both past cost causation and current beneficiaries. This principle does not appear anywhere in FERC Order no. 1000, which considers only aligning with past causation, current beneficiaries, and incentives or distortions that result. In sharp contrast to CAISO’s approach, FERC’s rate design principles expressly recognize “that the benefits and beneficiaries of a particular project may change over time, particularly in the case of a large project that provides regional and interregional benefits.”<sup>7</sup> This stands in sharp contrast to CAISOs expressed emphasis on allocating embedded costs solely to the parties historically responsible without reference to changes in the beneficiaries over time.

Finally, CAISO is express in its de-emphasis on consideration of the market impacts of rate design, which is the third prong of FERC’s three elements of cost causation. We disagree with this approach, because it risks driving unnecessary and uneconomic outcomes for ratepayers. Indeed, we find the fact that CAISO’s alternative rate design principles cut strongly against its proposed rate design a strong indication of the weakness of CAISO’s alternative approach.

The demand charge component of the rate design in fact fails on all of CAISO’s stated criteria.

First, peak demand at the customer meter does not measure peak transmission demand, so charging for peak transmission use at the customer meter does not conform to any of the potentially applicable rate design principles. Using the customer meter conflates peak customer demand met with DER with peak transmission demand. As a result, if an LSEs in a UDC territory invest in meeting load growth with local generation, demand response, and

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<sup>6</sup> FERC Order No. 1000, paragraph 508, citing *Midwest ISO Transmission Owners v. FERC*, 373 F.3d 1361. (D.C. Cir. 2004).

<sup>7</sup> FERC Order No. 100, paragraph 509.

storage, they would still face a sharp rise in demand charges even if they have zero additional impact on the transmission grid. In this circumstance, the demand charge would neither follow historical cost causation, nor would it reflect the allocation to current beneficiaries, while penalizing LSEs for mitigating their impacts on the transmission grid by shifting costs driven by others onto their ratepayers.

Second, the hybrid design also fails to allocate embedded costs based on the historical cost causation to “those for whom the transmission system was built.” Instead, like the proposal to move the point of measurement, the hybrid proposal would allow UDCs to shift costs onto other parties by reducing their peak energy usage behind the customer meter. In principle, cost allocation that follows historical investment drivers would be based on the historical projected peak flows that caused the costs of transmission investment decisions. That is, instead of developing a variable formula for allocating embedded costs, which cannot be changed, CAISO’s design principle suggests a formula that would lock in as a fixed proportion of costs, based on the weighted average of historical projections of each UDC’s projected peak demands as they were forecast in each planning period. (After all, just as the embedded costs cannot be changed, neither can the drivers of investment decisions once they are made.) It would seem that such a system would best ensure that cost allocation would follow the actual historical investment decisions and would prevent embedded costs from being shifted onto others who might use the system later, but for whom the system was not built. Thus, the hybrid design should be rejected if CAISO were to apply its rate design principles consistently. Since current peak demand does not necessarily reflect those historical factors, current peak demand would seem to be the wrong determinant under CAISO’s first principle. Of course, this also seems to be a fairly absurd result, suggesting that locking in embedded cost allocation only to those “for whom the projects were built” is not the right approach.

Third, the hybrid proposal would theoretically be rejected if one were to apply CAISO’s rate design principle that cost shifts among UDC areas are to be avoided. As discussed in the proposal on the point of measurement proposal, CAISO suggests it does not favor rate designs that “simply would move responsibility for the embedded costs of the existing system among UDC areas, shifting cost responsibility for costs incurred to meet customer needs to other[] customers in UDC areas” that have not taken steps to mitigate their peak

customer demand. Since the hybrid proposal *would* shift cost responsibility among UDC areas, “shifting cost responsibility for costs incurred to meet customer needs to other [] customers in UDC areas,” the hybrid proposal would also seem to have to be rejected. Indeed, the cost shifts among the UDC areas of over 5% as indicated in slide 31 of the April 11, 2018 presentation are nearly an order of magnitude greater than any cost shift that might result from a change in the point of measurement. Thus, if a cost shift of under 1% that aligns charges with past causation is unacceptable under CAISO’s rate design principles, then presumably a much larger cost shift resulting from a system that does not reflect either past cost drivers nor current usage would be many times more unacceptable. Thus, if CAISO is serious and consistent in its design principles, then the hybrid proposal as currently formulated should be rejected on the same grounds that the point of measurement proposal is provisionally rejected.

What this suggests isn’t that the hybrid proposal is a poor design, but rather that the better approach would be to adopt a modified version of the hybrid proposal based on the FERC principles and abandon CAISO’s alternative design principles. Ultimately, the necessary conclusion that CAISO’s rate design principles force a rejection of a sensible design should be a strong signal that these are not the right approaches for either element of the proposal. Instead of rejecting a decent hybrid rate design based on poor rate design principles, CAISO should align its rate design considerations with the FERC principles, and then apply those principles consistently across all elements of the proposal.

**2. Please provide any additional general feedback on the proposed modification to the TAC structure to utilize a two-part hybrid billing determinant approach.**

The Clean Coalition supports the concept of a hybrid rate design that allocates some proportion of TAC to align current use and benefits and another portion of TAC to align with capacity or non-variable benefits. Although the hybrid rate design is at best a rough approximation of that division, it does represent an improvement over the current system.

The Clean Coalition also supports the concept of a demand charge to allocate costs based on *transmission* usage. However, as noted above, the demand charge component charged at the customer meter confounds transmission use with customer demand which at best has only a rough

relationship to transmission use. Unfortunately, as currently designed, the demand charge component is of limited merit.

### **Determining components of HV-TRR to be collected under hybrid billing determinants**

#### **3. Does your organization support the proposal for splitting the HV-TRR for collection under the proposed hybrid billing determinant using the system-load factor calculation described in the Revised Straw Proposal?**

Yes. System-load factor is a reasonable approach that has two valuable aspects. First, the system-load factor represents a dynamic cost allocator that should automatically reallocate costs depending on how use and benefits from the transmission system move among users. Second, the system-load factor also is valuable in that it allocates demand charges to proportional to the magnitude of peak demand as an unaddressed problem and thus increases or decreases charges depending on how much or how little LSEs collectively shape peak demand as a common problem.

However, the system-load factor does have a free-rider issue, which would drive cost shifts onto customers of LSEs that act to make the system more efficient. While cost shifts that represents an improved cost allocation or improve efficiency can be beneficial overall, cost shifts that move costs off free-riding parties that have not acted to reduce overall system costs and onto those parties that have acted in ways that reduce overall costs are harmful. The system-load allocator unfortunately appears to fall in the latter category. As with using customer meter to measure transmission use, the system-load factor allocator is likely to actually increase the cost allocation onto LSEs that use distributed generation, storage and demand dispatch to reduce their peak transmission use to reduce the total system-wide peak transmission demand. As an LSE reduces their customers' peak transmission demand, the proportion of non-peak charges will increase on their non-peak load as the demand charge component declines. These LSEs will see some reduction in their demand charges, but will have shifted these savings onto their own non-peak use. Meanwhile, those LSEs that do not mitigate their peak transmission demand at all will still see their overall TAC bill decrease as the demand charge component shrinks. These savings come through no action of their own, but because others are taking action to reduce overall system

costs. Thus, the system-load factor allocator has a similar free rider cost shift problem as the use of CED.

**4. Please provide any additional specific feedback on the proposed approach for splitting the HV-TRR costs for the proposed hybrid billing determinant.**

The Clean Coalition has no specific improvements to the system-load factor that could address the free rider problem, but looks forward to engaging with CAISO to develop an improved allocator.

**Peak demand charge measurement design for proposed hybrid billing determinant**

**5. Does your organization support the proposed 12CP demand charge measurement as described in the Revised Straw Proposal?**

The Clean Coalition generally supports the use of a 12 CP approach, particularly as weighted to reflect the relative peaks among the different monthly peaks. Although the transmission planning process must also account for off-peak reliability needs and other capacity benefits, these benefits are captured in principle by the volumetric non-demand charge component of the hybrid proposal.

**6. Please provide any additional feedback on the proposed design of the peak demand charge aspect of the hybrid billing determinant.**

**Treatment of Non-PTO entities to align with proposed hybrid billing determinant**

**7. Does your organization support the proposed modification to the WAC rate structure to align treatment of non-PTO entities with the proposed TAC hybrid billing determinant?**

Yes. The formula for WAC should be align with the structure of the TAC. We recognize that the WAC formula is actually superior to the TAC design in that the WAC rate is based on the actual *transmission* use measured at the transmission grid, and does not confound distribution grid use with transmission use. In that sense, to the extent that TAC and WAC formulas differ, the WAC formula is theoretically superior.

**8. Please provide any additional feedback related to the proposal for modification to the treatment of the WAC rate structure for non-PTO entities.**

**Additional comments****9. Please offer any other feedback your organization would like to provide on the Review TAC Structure Revised Straw Proposal.**

Naturally, we disagree with the rationales offered for declining to move the point of measurement of transmission system use, although we appreciate CAISO's willingness to adopt this change provided other entities make conforming reforms, which we intend to pursue vigorously.

Overall, the justifications for declining to move the measurement of transmission to TED offered in the second straw proposal are simply not in alignment with the principles laid out in FERC Order No. 1000 on several fronts

First, as we demonstrated in our previous comments the embedded costs were planned not to include load served by distributed generation, which means retroactively charging TAC on that load actively shifts costs onto users *for load the transmission system proportionally was not planned to serve*. Thus, a focus on allocating embedded costs based on historical drivers would exempt DG-served load because the planning exempted that load.

Second, CAISO is incorrect in saying that procurement would not reflect the change in the HV-TAC. Although CCA procurement does not necessarily incorporate consideration of TAC, IOU procurement does through Least Cost Best Fit. As a result, IOU procurement would reflect changes in TAC immediately with no further retail tariff changes required. Whether transmission owning stakeholders or transmission-connected generators are in favor or oppose the proposal does not change this fact. ONLY CCA procurement does not receive a financial signal.

Third, even if there were no signal to procurement whatsoever, FERC cost allocation principles strongly indicate that TED is a better measure for cost allocation than CED and so the change should be made on that basis alone.

Fourth, as noted above, cost shifts are not always disfavored if the cost shift results in an improvement of alignment of cost allocation with cost causation and reductions in distortions of the cost allocation system. Here, CAISO's objections to moving the point of measurement



because of cost shifts that improve the alignment with cost causation are problematic given CAISO's acceptance of much large cost shifts resulting from the hybrid proposal that has a much weaker relationship to cost causation.

That said, we appreciate that CAISO has achieved greater clarity regarding the actual considerations in the point of measurement. We certainly anticipate further refinements to improve the alignment of cost allocation with cost causation. In particular, we expect CAISO should consider elements such as a hybrid charge including capacity or existence components and usage components as well as a system of seniority or other true up mechanism to ensure all costs are allocated to users of the system.

We greatly appreciate CAISO's commitment to make these reforms provided accompanying reforms can be made through the CPUC and IOU tariffs. The Clean Coalition is keen to get greater clarity on the particular changes CAISO would prefer as we move SB 692 forward to ensure that there is a consistent and integrated state policy of accounting for the full costs of energy including both delivery and generation costs.