

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**.

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.

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.

ITC agrees with the need to consider all three ratemaking approaches discussed in Section 7.1: (1) project cost causation and drivers, (2) current usage and benefits, and (3) pricing signals to modify future behavior. Addressing pricing signals first, due to the fact that the high-voltage transmission system represents only a small percentage of the total bill paid by an end-use customer, any pricing signal sent by the TAC would be negligible, and would likely have little influence on end-use customer behavior. Therefore, sending a pricing signal with the intent to change customer behavior should

not be a primary consideration in designing the TAC, although unintended behavioral incentives of various TAC structure options should be considered.

Rather than focusing the discussion on embedded costs and the original drivers of the need for transmission facilities, ITC notes that all loads connected to the grid are customers receiving service and benefiting from the transmission system. For some customers, that service may entail back-up of load when on-site or distributed generation is unavailable, while others may require more continuous delivery of energy and capacity. But in all cases, customers who remain connected to the grid are using and receiving benefits from it, regardless of the vintage of the transmission facilities comprising the interconnected system, and what need drove the original investment.

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.

ITC supports the concept of a two-part measurement of customer usage, including peak demand and volumetric components, and notes that such a hybrid charge structure would appropriately reflect the multiple drivers and functions of transmission facilities. We provide additional feedback on the specifics of the proposed hybrid charge structure in response to the questions below.

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.

While ITC does not have a strong preference, we would recommend the 50/50 split over the approved project functional analysis for splitting the high voltage portion of the TRR. The even split between peak demand and volume recognizes that the mix of transmission project types, and the use and benefits of those investments, may change over time. While it is tempting to develop an analytical basis and justification for allocating the revenue requirement, the notion of 'reliability,' 'capacity,' and 'energy

delivery' as a primary function of a particular project is arbitrary. Transmission facilities serve all of these functions when they become part of the embedded system. In addition, using such a justification for the TRR split may drive the need to update the analysis – and the demand/volume split – repeatedly over time. In contrast, the 50/50 split is administratively efficient and easy to implement – and the ISO's initial cut of the approved project functional analysis comes reasonably close to a 50/50 outcome (42% demand / 58% volume).

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

As noted in the response to #4 above, the use of additional data to develop the high voltage TRR split may introduce complexity without improving accuracy. Regardless of the amount of data used to identify the functions that a transmission facility is likely to serve, the use and benefits of the facility will be different in practice and will change over time. Therefore, it seems reasonable to select a more straightforward approach that avoids distinctions between specific project functions.

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.

ITC notes that the use of monthly coincident peak demand measurements would be reasonably aligned with the ISO's transmission planning process, and the way in which transmission needs and solutions are identified in that process. However, we would consider a combination of coincident and non-coincident peak demand charge methods, if the ISO or other stakeholders were to make a specific proposal for doing so.

- 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.

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.

ITC believes that it is appropriate to consider whether changes to the TAC structure may need to be extended to the billing determinant approaches for these entities, and in particular, any unintended consequences of not doing so.

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.

ITC supports maintaining the point of measurement for TAC at end-use customer meter points, based on gross load. As discussed in the response to #2, all loads connected to the grid, including those served by distributed generation, are using and receiving the benefits of transmission facilities. Modifying the point of measurement could result in free ridership by some of those connected loads at the expense of others, which should be avoided.

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.

ITC opposes modifying the point of measurement, whether for 'embedded' or future transmission costs. As discussed in several of the above responses, all loads connected to the grid are using and benefiting from it, and should pay a share of its cost – regardless of the vintages of the facilities comprising it. As future investments are added to the embedded system, their use and functions are indistinguishable from the surrounding facilities. While the ISO observes that it is possible that certain distributed generation resources may avoid or defer the need for transmission investment in certain locations on the system, such avoidance or deferral is dependent on many factors (resource size, type, location, etc.) and is by no means universal to all such distributed resources or their locations. Moreover, assuming for the sake of argument that a measurable set of avoided transmission costs can be attributed to certain distributed generation resources, it is unclear how those specific distributed resources would be 'credited' for avoided costs. For many of these reasons, the FERC-established standard for transmission cost allocation is that it should be "roughly commensurate" with benefits, and retaining the current point of measurement for the TAC is generally consistent with that standard.

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.

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.

ITC does not have additional comments, but appreciates the opportunity to provide feedback, and looks forward to reviewing future iterations of the TAC structure proposal.