LO3 ENERGY

LO3 Energy
573 Sackett, Brooklyn,
NY 11217

18/07/2018

California Independent System Operator
250 Outcropping Way
Folsom CA

Att: Christoper Devon

By email: initiativecomments@caiso.com

Dear Mr Devon,

Re: Transmission Access Charge Structure Review – Second Revised Straw Proposal

LO3 Energy welcomes the opportunity to make a submission in response to the California Independent System Operator (CAISO)'s "Second Revised Straw Proposal."

We are a fast-growing company, headquartered in New York, with deep roots in energy, finance and technology. We are building a platform to enable decentralized markets, business models and innovative technologies to support new energy products and services and new ways for buying and selling energy.

The Transmission Access Charge Structure Review presents an important opportunity to reform transmission network charging in California. Reform is important, as transmission costs are growing rapidly and taking up an increasing share of utility bills.

LO3 Energy supports the California Independent System Operator (CAISO)'s proposed modifications to the structure of the Transmission Access Charge (TAC). Introducing a coincident peak demand charge will more closely align the TAC with marginal cost pricing, which will better promote efficient use of and investment in transmission capacity going forward.

Regarding the 'point of measurement' issue, we consider the Clean Coalition's proposal has merit. It captures the contribution distributed generation makes to reducing the need for future investment in transmission infrastructure, which in turn will promote a lower TAC over time for all customers.

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We do not consider a change in the point of measurement should apply to a Principal Transmission Owner's total revenue requirement however. This would shift all transmission related costs to customers without distributed generation, which underplays the role of transmission in supporting supply reliability. It also fails to sufficiently recognise that shifting the unavoidable sunk costs of the network between different classes of customers neither promotes economic efficiency nor fairness. We consider this issue can be addressed by implementing a refinement to the Clean Coalition's proposal.

Our more detailed comments on these issues are addressed in the template provided.

If you have any questions please do not hesitate to give me a call on +61 439399943

Thank You,

Con Van Kemenade
Director Public Policy

Stakeholder Comments Template

Review TAC Structure Second Revised Straw Proposal

This template has been created for submission of stakeholder comments on the Review Transmission Access Charge (TAC) Structure Second Revised Straw Proposal that was published on June 22, 2018. The Second Revised 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
Con Van Kemenade	*LO3 Energy*	*July 19 2018*

Submissions are requested by close of business on **July 18, 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?**

LO3 energy supports the hybrid billing determinant proposal as it provides a reasonable balance between cost recovery and providing efficient price signals that reflect the marginal cost of using the network.

Transmission costs are growing rapidly in California and are allocated to energy customers, who currently have no ability to influence those costs. As a consequence, there a number of compelling reasons to link more closely transmission charges with marginal cost.

First, prices that reflect marginal cost promote efficient use of the transmission network by ensuring that only those customers who most value using the network when costs are high, during coincident peak demand, use the network at these times, while encouraging all customers to use the network as much as possible at times when costs are low, at non-peak times.

Second, prices based on marginal cost promote efficient investment in electricity networks and technologies that use or produce electricity, as usage is linked to the preparedness of users to pay the true cost of providing services when required.

Third, a fundamental aspect of marginal cost is that it includes the costs that could be saved by using less energy. Prices based on marginal costs signal to customers the future or avoidable costs of providing transmission capacity. It is these costs that customers can influence by making informed choices about their consumption and investment decisions. Marginal cost pricing allows customers to adjust their consumption in ways that can reduce their own cost of using the network as well as contribute to reducing future network costs and prices for all consumers.

Finally, prices based on marginal cost are also a fairer way of charging for the network as electricity users directly contribute to the costs that they impose on the network as a consequence of their electricity use. Those who cause costs to be incurred are typically also in the best position to reduce or minimise those costs. Allocating costs to causers is a fundamental principle of economics.[1]

Implementing marginal cost pricing

The TAC is currently structured as an averaged postage stamp rate by CAISO to recover total costs of the transmission network rather than marginal costs. This type of charging approach provides no signals for efficient use of and investment in the transmission network.

However, a true marginal cost-based network price cannot feasibly be implemented for customers, as such prices would be highly volatile and would differ by each individual customer location in the network. Further, because transmission companies are natural monopolies, such prices would not recover the full costs of providing transmission services.

CAISO's proposed modifications to the TAC we believe, which implements a transmission price based on coincident peak demand, provides a sound proxy for marginal cost and will promote economic efficiency.

The transmission network is primarily built to meet network peaks and therefore focusing the recovery of transmission costs on network use at these times will send efficient signals for using and investing in the network.

We agree with CAISO however that irrespective of the choice of network price used to signal the cost of additional infrastructure investment there remains the need to recover the total cost (i.e. both the investment and ongoing operating cost) of the existing transmission assets. Because these costs are fixed and sunk they cannot be reduced or avoided regardless of how charges are set. Retaining a separate postage stamp component in the TAC to recover these costs is consistent with promoting economic efficiency. As a postage stamp charge does not vary with the timing of consumption (and it is the timing of consumption that drives network costs) it avoids the distortion of marginal cost based price signals (as represented by the peak demand charge).

[1] Economics typically does not recognise the concept of 'beneficiary pays' as a way to allocate costs, since costs incurred are often not directly correlated to the benefits. However, where causers are difficult or impossible to identify, such as for example large transmission projects that span a number of regions, beneficiary pays approaches provide a useful 'second best' solution to allocating costs, as recognised by FERC Order 100.

2. **Please provide any feedback on the proposal to utilize PTO-specific FERC rate case forecasts to implement the hybrid billing determinant proposal.**

   For context, under the second revised straw proposal, the ISO modified the proposal to use PTO specific rate case forecasts to set the HV-TRR bifurcation and resulting HV-TAC volumetric and demand rates. Does your organization support this modification to the proposal?

   a. **Please provide any feedback on the possibility that this proposal causes a need for PTO's FERC transmission rate case forecasts to be modified to include coincident hourly peak load forecasts.**

   b. **Does your organization believe that the use of historic data from the prior annual period could be a viable alternative for this aspect of the proposal? Please explain your response; if you believe this would be more appropriate or potentially problematic please indicate support for your position.**

3. **Please provide any additional feedback on any other aspects of the hybrid billing determinant proposal.**

LO3 Energy supports the CAISO's proposals as set out in the Second Revised Straw Proposal.

Additional comments

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

LO3 Energy disagrees with CAISO's position on the point of measurement issue.

When distributed generation is installed on site at a customer premises or is connected directly into the distribution network, this reduces the amount of energy imported by the distribution network from the transmission network, freeing up available transmission capacity for meeting future demand growth. This reduces the need for future investment in transmission infrastructure to meet this demand growth.

As described in detail by the Clean Coalition in its submissions to this consultation process, it is important that distributed generation is recognised for this benefit, as otherwise this distorts the competitive playing field in favour of remote generation sources. As the Clean Coalition notes, over time this is likely to lead to overinvestment in transmission, increasing transmission costs for all energy customers.

In this regard, we disagree with CAISO that the Transmission Procurement Plan (TPP) and current California Public Utilities Commission (CPUC) procurement processes already sufficiently account for the potential benefits of distributed generation. As the Southern California Edison's 125-megawatt preferred resources pilot has demonstrated, engagement in such processes are

highly complex, subject to significant transactions costs and considerable uncertainties surrounding CPUC approval. This type of process in our view will fail to capture the value of the vast majority of distributed generation customers.

We consider a relatively simple and scalable solution is preferred, the Clean Coalition's proposed modifications represent such an approach.

The Clean Coalition proposes to change the point at which electricity is metered from the customer meter to the transmission-distribution interface, which would mean the TAC would be calculated on the basis of consumption served solely by the transmission network. This differs to the current approach where the TAC is calculated on the basis of all consumption, regardless of where the electricity is actually sourced from.

We consider this approach would more transparently capture the true costs of transmission for each customer. This would promote more efficient utilisation of the transmission network and drive lower utility bills over time as customers collectively act to reduce their impacts on the network.

The other important implication of changing the point of measurement is that it will strengthen incentives for the Utility Distribution Companies (UDCs) to support installation of distributed generation in their network areas. UDCs are responsible for paying the TAC to CAISO on behalf of their customers. Changing the point of measurement would make the overall transmission cost allocation for each UDC dependent on how much energy they import from the transmission system. This would provide strong incentives for the UDCs to lower their TAC liability by supporting increased penetration of distributed generation in their network areas, for example by passing through of some of the avoided TAC costs to their distribution customers.

We do not agree however with a 100 per cent pass through of avoided transmission costs to distributed generation customers. Regardless of how much generation a customer chooses to source locally, the existing fixed and sunk costs of the network need to be recovered. It is appropriate that distributed generation customers pay a fair contribution to these costs, which recognises that the existing transmission network provides an important source of supply reliability.

In our view, distributed generation should only be able to capture the benefits associated with reducing future network costs, not existing costs. This could be achieved through a refinement to the Clean Coalition's approach, by referring the change in point of measurement to the peak demand component only. The postage stamp component of the TAC should continue to be calculated on the basis of consumption measured at the customer meter.

In practice this would mean that customers with distributed generation would only be able to avoid the peak demand charge, not the postage stamp component. We consider this approach would represent and efficient and practical compromise between CAISO's position and that put forward by the Clean Coalition.