

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.

NCPA has no comment at this time.

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.

The CAISO has identified three ratemaking approaches that it might pursue with this TAC initiative, alone or in combination. These are:

1. *Charge TAC according to cost causation and cost drivers when the decision to invest in the transmission facilities was made;*

2. Charge TAC according to current usage (and presumably benefits) of the transmission facilities, which could be different than the drivers when the investment was made; and
3. Charge TAC to send price signals as incentives to modify future behavior.

NCPA will address the third identified principle first, because NCPA believes that it is not realistic to believe that CAISO can send meaningful price signals through the TAC cost allocation, nor is it desirable for it to attempt to do so. NCPA believes that integrated resource planning and the resulting choice of resource mix is a policy objective that is most appropriately made by California's state and local elected decision makers, and their appointees. These jurisdictions are best positioned to consider the overall content of their resource mix, and collectively transmission costs play a relatively small part in that decision making process.

There are a large number of state and local jurisdictions with the power and obligation to make decisions about resource mix. A few notable examples include the state legislature and the Governor, who have enacted a range of statutory requirements dictating the procurement of renewables and storage, and have often dictated the quantities of each to be procured, either directly or through CPUC rulemaking. The CPUC itself is deeply engaged in an Integrated Resource Planning docket to tailor procurement requirements even more finely. The municipalities that comprise NCPA are also governed by elected officials who make decisions about the type of resources to be pursued, and these local officials are particularly sensitive to the wishes of their customers in terms of resource procurement. Certain claims have been made by participants in this stakeholder process that transmission costs have had a detrimental influence on certain preferred resource investment decisions. As a resource planner that is directly involved in the development of short term and long term resource acquisition decisions, NCPA can confirm that this assumption is simply not true. As NCPA has noted in its previous comments in this stakeholder process, the mandates emanating from the state and from citizen demand have far greater influence over resource procurement decisions than the transmission rate. Local distribution system upgrade costs related to various technologies also play a key role. In NCPA's case, the obligation to pay for transmission upgrades of any resources exported from a member city is also a critical variable.

Even if there were a case to be made for incenting resource choice through the transmission rate, NCPA has previously submitted comments demonstrating what a difficult task this would be. Not only are resource decisions not particularly sensitive to the transmission rate, but the transmission rate is not particularly sensitive to resource decisions. There have been extensive comments already submitted in this stakeholder initiative that describe how the process of formulating PTO rates mutes any incentive particular LSEs might have to invest in particular generation. Even if LSEs make such investments, the results they would see in their transmission rates can be muted by rate structure, customer classes, and the degree to which other LSEs made similar investments.

Finally, there is little reason to believe that significant DG investment will have a significant impact on the increase in the TAC rate. As NCPA has shown in previous comments, much of the increase in capital spending in the PTO transmission rates are driven by work and

investment for repair and replacement of existing transmission facilities, rather than investment in new facilities assessed and approved through the CAISO TPP. The existing grid is the main source and driver of increased transmission spending, and will likely be so for the foreseeable future. To the extent that changes, for example due to new policy requirements from the State of California, DG investment is also unlikely to be a strong factor. For example, if California were to decide to build long high voltage transmission lines to import out-of-state renewable resources, such a decision could drive significant new transmission costs, whether or not LSEs have invested in DG.

The reality is that this initiative must focus on allocating a significant amount of sunk, fixed investments, that have been made (and that will continue to be made) to build and maintain the existing transmission system, and transmission cost allocation should follow past and present grid usage. NCPA believes that the methodology developed for allocating transmission costs considered within the scope of this initiative, which represent only a share of all transmission related costs¹, should be strongly influenced by ratemaking approaches 1 and 2 described above. To the extent there is a need to send price signals to encourage or modify existing investment and/or procurement decisions, NCPA believes such incentive should be considered through development of new market products or other market enhancements, as compared to driving such behavior through the TAC.

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.

Developing a methodology for allocating HV transmission costs is not an exact science. All such costs are derived from multiple sources (e.g., TO Tariff and TPP activities) that utilize a variety of billing determinants and drivers. There is a complex process used, as developed by each individual PTO and approved by FERC, to determine what share of all transmission related costs are allocated to different users of the grid. Ultimately, CAISO is merely responsible for allocating the share of all such costs that are assigned to wholesale transmission services purchased through the CAISO. As such, any method developed as part of this initiative cannot be blind to the fact that CAISO is not allocating costs in a vacuum, and that the bucket of costs CAISO is responsible for allocating is not directly and solely controlled by the decisions and/or cost allocation methodologies adopted by the CAISO.

NCPA believes that HV transmission costs should be allocated to entities based on: 1) the assumptions that were used during the planning process (both CAISO's TPP and earlier

¹ Only costs associated with High Voltage facilities used for wholesale transmission service are being considered as part of this initiative.

processes) that ultimately drove the investment decisions and costs we are now considering, and 2) how the grid is used today to support reliability and other policy objectives. Without going into the details that are further described in the CAISO's straw proposal, NCPA agrees that the transmission system provides a variety of benefits that go beyond simply transporting energy from source to sink locations. As such, NCPA generally supports the concept of developing a two-part hybrid approach for measuring usage of the transmission system, including a part volumetric approach and a part demand based approach.

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.

The costs allocated through the HV TAC are first derived through the PTO developed TO Tariff process. The details included in each of the PTO TO Tariffs are extensive, and are not easily decoded for the purpose of identifying a single underlying driver of costs. As one approach, the CAISO has proposed to generally categorize all HV transmission costs into the categories of reliability projects, policy projects and economic projects. Then based upon this categorization, CAISO has proposed to allocate costs attributed to policy projects using a volumetric approach, and to allocate the balance of costs using a demand based approach. While NCPA does not oppose this proposal, NCPA also recognizes that this approach is not exact or precise, for the reasons described above, nor is it easily applied retroactively to costs that predate the CAISO's existence. The second approach proposed by the CAISO seems to recognize the complex and somewhat arbitrary task of attempting to precisely assign all costs, most of which were planned and incurred years or even decades ago, to a distinct category based on how CAISO plans the projects within its purview now. Recognizing the inherent arbitrariness of such an exercise, CAISO simply proposes a 50/50 assignment of costs to the volumetric and capacity based categories.

At this time, NCPA does not have a strong preference for either approach, nor is it prepared to offer an alternative solution, but NCPA generally supports the concept of allocating costs associated with policy driven projects using a volumetric approach, and allocating costs associated with reliability and economic projects using a demand based approach. While NCPA could support such an approach in concept, the inherent difficulties in allocating existing costs fairly under such an approach are sufficiently difficult that NCPA can also see the virtue of a simple 50/50 split.

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

Please see NCPA's response to Question 4.

- 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.

NCPA has no comment at this time.

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.

NCPA believes that the most rational and defensible method for developing the demand based measurement would be to tie it to the underlying assumptions used in the TPP. While a majority of the costs being allocated through the HV TAC are fixed in nature, and are the result of transmission investment decisions that long preceded the CAISO TPP, a significant portion of the new development going forward is driven by the TPP. As further described in CAISO's straw proposal², in the TPP, the CAISO plans the system to meet the system's coincident peak, and that coincident peak demand is the most commonly used measure for transmission planning and cost recovery at the wholesale level. Based on this, NCPA could conceptually support using a coincident peak demand measure that is consistent with the underlying assumptions that are used within the transmission planning process.

- 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.

NCPA believes it would be helpful for the CAISO to further describe the key assumptions and measures that influence the transmission plans developed through the TPP, to ensure the demand measure used within the hybrid approach is consistent with such assumptions.

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

² Page 28 of CAISO Review TAC Structure Straw Proposal.

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.

As further supported by the prior comments submitted by NCPA in this initiative, NCPA does not believe that any entity has made a case that the underlying point of measurement treatment currently used for non-PTO municipals and metered subsystems should be modified, and NCPA strongly believes that such changes should not be considered within this initiative. Notwithstanding this position, NCPA is open to considering proposals for implementing a hybrid approach as further described herein for allocating HV transmission costs to non-PTO municipals and metered subsystems based upon use of the current point of measurement for non-PTO municipals and metered subsystems, consistent with the assumptions for Non-PTO loads for which the CAISO has historically planned, for the application of a volumetric, peak demand or hybrid rate as discussed above.

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.

Yes. For all the reasons set out in NCPA's earlier comments in this process, NCPA supports the CAISO's conclusion not to propose moving the point of measurement for TAC billing, including maintaining the point of measurement treatment currently used for non-PTO municipals and metered subsystems.

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.

While NCPA earlier stated that it could support different treatment for different cost categories, this comment was not intended to refer to the location of the point of measurement. NCPA does not see anything to be gained by using a different point of measurement for different categories of transmission. NCPA's view is that the impact any change in the point of measurement would have on escalating transmission costs would be minor, and that the effort

of teasing out the impact on different categories of costs is unlikely to be worthwhile. NCPA believes that California legislature and CPUC decisions will have much greater impact on California resource choices and the need for new transmission than minor differences in transmission rates. Also, it is NCPA's understanding that the TPP already considers the impact of demand response and energy efficiency may have on transmission planning activities.

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.

NCPA supports use of the current point of measurement, including maintaining the point of measurement treatment currently used for non-PTO municipals and metered subsystems, for TAC and WAC billing, including using such points of measurement for developing the volumetric and/or demand based allocation.

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.

NCPA has no additional comments at this time.