California ISO

Stakeholder Comments Template

Transmission Access Charge Structure Enhancements: Draft Final Proposal

This template has been created for submission of stakeholder comments on the Transmission Access Charge Structure Enhancements: Draft Final Proposal that was published on September 17, 2019. The Transmission Access Charge Structure Enhancements, 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/TransmissionAccessChargeStructureEnhancements.aspx

Submitted by	Organization	Date Submitted
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Upon completion of this template, please submit it to initiativecomments@caiso.com Submissions are requested by close of business on **October 9, 2019.**

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

Hybrid Billing Determinant Proposal

Please state your organization's position on the Hybrid Billing Determinant Proposal as described in the Transmission Access Charge Structure Enhancements: Draft Final Proposal: (Support, support with caveats or oppose)

If you replied supports with caveats or opposes, please further explain your position and include examples:

SDG&E Response:

Hybrid Energy- and Demand-Based Allocation Approach

For purposes of allocating the CAISO's high voltage transmission revenue requirement among Utility Distribution Companies (UDCs), SDG&E supports changing the existing volumetric-only mechanism to a combined volumetric and demand-based mechanism. This approach better reflects the historical basis upon which high voltage transmission needs have been determined, mitigation identified, and high voltage transmission facilities built. SDG&E also supports using the CAISO Balancing Authority Area (BAA) load factor to determine the percentage of the CAISO's high

voltage transmission revenue requirement to be recovered on a volumetric basis; the remainder recovered on a demand basis.

Measurement Basis for Allocation

SDG&E agrees with the CAISO that the measurement basis for allocating the CAIOS's high voltage transmission revenue requirement among UDCs should remain at the Gross Load level. Changing the measurement basis to flows across the transmission/distribution interface (as proposed by Clean Coalition), will result in a reallocation of fixed transmission costs based on each UDC's relative amount of distribution-connected generation.

SDG&E does not believe there is sufficient evidence demonstrating that UDCs whose distribution systems directly interconnect relatively larger amounts of distribution generation, benefit from the services provided by the transmission system (e.g., voltage support, real-time load-resource balancing, distribution service restoration) at a measurably lower level than UDCs with relatively smaller amounts of directly-connected distribution generation. Nor does SDG&E believe there is sufficient evidence demonstrating that UDCs whose distribution systems directly interconnect relatively larger amounts of distribution generation, should be credited with having measurably avoided more high voltage transmission costs as compared to UDCs with relatively smaller amounts of directly-connected distribution generation.

The Clean Coalition proposal lacks an adequate foundation from both the benefits and cost causation perspectives.

Allocation Basis for Demand-Based Component

While SDG&E supports the CAISO proposal at a policy level, SDG&E believes one change should be made at the implementation level. As indicated in SDG&E's July 23, 2018 comments, SDG&E recommends that the CAISO adopt a 1NCP [the annual Non-Coincident Peak] methodology as the basis for allocating the demand-based portion of the CAISO's high voltage transmission revenue requirement among Utility Distribution Companies (UDCs).

As was confirmed by CAISO staff at the September 24, 2018 stakeholder meeting, the CEC's official forecast of annual peak demand for each UDC service area is the primary basis upon which the CAISO conducts reliability assessments in its annual Transmission Planning Process (TPP). The CEC's peak demand forecasts are UDC-area specific; the CEC does not attempt to forecast each UDC service area load at the time of the CAISO Balancing Authority Area (BAA) peak demand. In fact, to date, the CEC has never produced a CAISO BAA peak demand forecast. Accordingly, the peak demand forecasts produced by the CEC and used by the CAISO in its TPP to

identify the need for, and approve cost recovery of, high voltage transmission infrastructure, are annual non-coincident peak demands (1NCP).[1]

As explained by the CAISO staff, the annual TPP analysis generally proceeds in a step-wise fashion whereby local areas are studied first, reliability criteria violations found and mitigation identified. Mitigation of local area problems is usually at lower voltages so there is no effect on the CAISO's high voltage transmission revenue requirements.

This is followed by a study of the broader UDC service area (using each UDC's 1NCP) wherein mitigation identified at the local area level is assumed in place. Any UDC-level reliability criteria violations are found and appropriate mitigation identified. Mitigation of UDC-level reliability criteria violations may involve new high voltage infrastructure and thereby result in additions to the CAISO's high voltage transmission revenue requirements.

Finally, the CAISO will consider whether there are any needs at the CAISO BAA level. SDG&E believes the CAISO BAA-level analysis uses the aggregate of UDC 1NCPs. In any event, according to CAISO staff, mitigation identified at the local level and at the UDC level almost always results in a finding of no reliability criteria violations at the CAISO BAA level.

In sum, the CEC's 1NCP peak demand forecasts for each UDC area are a primary driver of the CAISO's high voltage transmission revenue requirements. For this reason SDG&E believes there is a strong cost causation basis for using 1NCP to allocate the demand-based portion of the CAISO's high voltage transmission revenue requirement among UDCs.

<u>CAISO Rationale for Selecting Coincident Peak Rather than Non-Coincident Peak</u>
*The CAISO has considered the use of non-coincident peaks to allocate the demand-based component of the high voltage transmission revenue requirement among UDCs. In the April 4, 2018 "*Review Transmission Access Charge Structure, Revised Straw Proposal*" the CAISO described its rationale for selecting coincident peak rather than non-coincident peak:*

> *"*...For a coincident peak demand measurement, usage is measured for each customer based upon the customer's contribution to the overall coincident system peak. Coincident peak demand is the most commonly used for transmission cost recovery at the wholesale level. For non-coincident peak demand measurement, usage is measured for each customer based upon that customer's own non-coincident peak demand, regardless of the overall system peak. Non-coincident peak

[1] *For purposes of the CAISO's May 15, 2018 "*2019 Local Capacity Technical Analysis, Final Report and Study Results*," the CAISO did develop a coincident peak demand forecast for the combined Greater Imperial Valley-San Diego and LA Basin Local Capacity Requirement (LCR) areas. However, this forecast was limited to a single year and represents well less than half of the load in the CAISO BAA. Moreover, this analysis did not result in the approval of any high voltage transmission upgrades now in-service.*

> demand charges are more commonly used by utilities for retail rates for commercial and industrial customers.*" (page 17)*

As SDG&E understands the CAISO's rationale, the only reason the CAISO selected a coincident peak approach is because it "is commonly used…at the wholesale level." This is hardly a convincing basis for choosing one approach over another.

During the September 24, 2018 stakeholder meeting, there was a more robust discussion of the CAISO's rationale. As SDG&E understood the conversation, the CAISO chose coincident peak because it reflects the "benefits" UDCs receive from a high voltage transmission system designed to meet peak demands. SDG&E does not disagree that UDCs benefit from the ability to meet their respective load obligations during the coincident peak for the CAISO BAA. However, UDCs also benefit from the ability to meet their respective load obligations during each UDC's non-coincident peak. In fact, each UDC's non-coincident peak will usually be higher (never lower) than the UDC's load at the time of the coincident peak for the CAISO BAA. Using the CAISO's "benefits" logic, SDG&E reaches the conclusion that non-coincident peak is actually a better measure of benefits received.

Coupling the CAISO's "benefits" logic with SDG&E's "cost causation" logic, it appears to SDG&E that non-coincident peak is clearly superior to coincident peak for purposes of allocating the demand-based component of the high voltage transmission revenue requirements among UDCs.

CAISO Rationale for Using Monthly Peaks Rather than Annual Peak

*The September 17, 2018 "*Transmission Access Charge Structure Enhancements, Draft Final Proposal*" addresses the frequency that the CAISO proposes to apply to its proposed coincident peak methodology for allocating the demand-based component of the high voltage transmission revenue requirement. The CAISO:*

> "believes that the choice of peak demand measurement frequency should reflect the way the transmission system has been planned and how customers use transmission service and receive benefits. It is also reasonable to align the way customers use and benefit from the services provided through access to the transmission system with the frequency of the peak demand measurement."
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> "The ISO plans its system through its Transmission Planning Process (TPP) not only based on meeting the annual system peak, but also to meet identified reliability issues that can occur in numerous off-peak scenarios. Given the unique circumstances on the ISO grid, the transmission system must meet important reliability needs during both peak and off-peak periods. The ISO believes that a 12CP approach reflects both the capacity function and reliability benefits provided to system users on a monthly basis. Additionally, the ISO and CPUC's System resource adequacy (RA) capacity requirements are based on

> monthly peak loads, as determined by the CEC's Integrated Energy Policy Report (IPER) load forecast. Because the system is utilized to deliver monthly peak capacity needs of loads, the ISO believes the proposed 12CP approach also reflects the benefits associated with monthly delivery of peak capacity and reliability services." (page 18)
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> "…a higher frequency of CP demand measurements can reduce the potential for anomalous outcomes that could shift costs unreasonably, because including higher frequency of measurements can provide a less volatile overall reflection of UDC's coincident peak demands that also produces a more appropriate allocation of the peak demand charge TRR component among UDC areas." (page 19)

SDG&E recognizes that the CAISO's TPP does consider needs during periods other than the time of each UDC's annual peak; i.e., during "off-peak periods." However, this is not the same thing as evaluating UDC system performance during each of the UDC's monthly peak hours. SDG&E believes most of the off-peak evaluations are during shoulder hours (not monthly peak hours) where inertia, primary frequency response, voltage performance, and ramping concerns may exist. Moreover, it is not clear to SDG&E that a significant amount of the existing high voltage transmission revenue requirements can be traced to the CAISO's "off-peak" studies. The linkage to monthly peak demands appears weak.

Certainly, UDCs do benefit from the high voltage transmission system's ability to provide reliable delivery of power during each month's peak hour. The question, though, is whether this fact justifies the use of each month's peak load in determining how to allocate the demand-component of the high voltage transmission revenue requirement among UDCs. Considering that a significant portion of the existing high voltage transmission infrastructure was justified based on studies using each UDC's annual non-coincident peak (not monthly peaks), SDG&E believes cost causation tilts towards use of each UDCs annual non-coincident peak (1NCP).

The CAISO suggests that a twelve month mechanism is preferred to a single month because the twelve month mechanism provides a "less volatile" result. SDG&E believes this is actually a weakness of the twelve month mechanism. If the high voltage transmission system is designed and built to accommodate anomalous outcomes, such as power flows that may occur during weather conditions that are more severe that what is expected during the hottest part of the year – and SDG&E believes the transmission system is so-designed – then a UDC who is able to serve its load during such a condition should be allocated costs accordingly. Averaging in the UDC's peak loads during the other eleven months of the year – which may actually be lower than expected – shifts costs to those UDCs whose annual peak loads were not "anomalous."

Finally, the CAISO suggests that because Resource Adequacy (RA) requirements are set for each month of the year, there is support for allocating the demand component of the high voltage transmission revenue requirement on the basis of each UDC's twelve monthly coincident peaks. SDG&E sees no connection. Local RA requirements are based on a single, extreme, summer load condition and transmission contingency event. The extreme summer load level used in the determination of local RA requirements in the

Greater Imperial Valley-San Diego LCR area, for example, is the CEC's one-in-ten annual non-coincident peak demand forecast for the SDG&E distribution service area. Therefore, monthly RA requirements should not be utilized to determine the allocation of the demand component of the high voltage transmission revenue requirement.

SDG&E understands that determining the fairest way to allocate the demand component of the high voltage transmission revenue requirement among UDCs is, in part, an exercise of judgement. However, SDG&E believes the available objective evidence clearly supports the use of each UDC's annual non-coincident peak (1NCP) to allocate the high voltage transmission revenue requirement.

Additional comments

Please offer any other feedback your organization would like to provide on the Transmission Access Charge Structure Enhancements: Draft Final Proposal.