

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
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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?

ORA does not support the hybrid billing determinant proposal referred to as the "Hybrid TAC" described in the Second Revised Straw Proposal. Instead, ORA recommends consideration of other alternatives as described on page 3 of these comments under the section entitled "Recommendations for further TAC structure study." The CAISO's proposed Hybrid TAC structure would allocate transmission costs using both a volumetric and a demand component. The demand component would use the transmission system's 12 coincident peaks (CP) as the demand measurement.¹ Based on ORA's assessment of the Hybrid TAC proposal, this alternative TAC structure does not appear to better align costs with the benefits received from the transmission system and appears unlikely to produce outcomes that are more just or reasonable than the existing all-volumetric TAC rate structure.

¹ *Review TAC Structure Second Revised Straw Proposal, CAISO, June 22, 2018, p. 29.*

"The ISO will use each UDC's hourly average peak demand, coinciding with each monthly system coincident peak hour to determine the 12 CP monthly demand usage and associated HV-TAC 12CP demand charges. The ISO believes this proposed approach is appropriate because the ISO will set the 12 CP demand charge rate using the PTO's approved forecast coincident peaks."

ORA sees at least three issues with using the 12 CP demand measurement for the proposed Hybrid TAC structure

1. A 12 CP Measurement Does not Directly Align with CAISO Transmission Planning Drivers

A 12 CP measurement does not align with how the CAISO plans for transmission reliability needs. The CAISO currently plans for peaks in the summer and the winter. For this reason, ORA agrees with Silicon Valley Power (SVP) that a 12 CP measurement could mute the price signal regarding the drivers for most transmission planning decisions and costs.²

2. PTOs with peaks that are not coincident with the system peak will pay less

Based on the CAISO's hourly load data for four Participating Transmission Owners (PTOs) within the CAISO balancing area, which are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Valley Electric Association (VEA),³ the PTOs with the greatest load each month drive the system's coincident peak hours. Currently, on average, these PTOs are PG&E and SCE. As a result, if the Hybrid TAC relies on a purely 12 CP demand measurement, PTOs with significantly different peak hours than PG&E and SCE, such as VEA, will pay less with the Hybrid TAC than under the current volumetric TAC based structure. With the implementation of a Hybrid TAC using a 12 CP demand measurement as illustrated in CAISO's Hybrid TAC cost impact modeling analysis, it is estimated that VEA could pay approximately 8.4% less than it does today.⁴ This is because VEA has comparatively lower load and its system peaks in the morning, whereas the systems of PGE, SCE, and SDG&E peak in the evening per ORA's review of the CAISO's hourly load data.

SVP's Hybrid TAC proposal, which is similar to the CAISO Hybrid TAC proposal and includes volume and peak demand components and relies on the system load factor to determine the TAC recovery allocation for these components, estimates an increase in the VEA TAC burden with the implementation of its Hybrid TAC, not a decrease.⁵ ORA, therefore, recommends further evaluation of this disparity as well as SVP's modified 12 CP demand measurement proposal for the Hybrid TAC as described in SVP comments on May 1, 2018.⁶

3. The peak time frame for the CAISO system shifts from month to month and is greater than one hour

Because PTOs' peak time frames vary from month to month, it is important to further evaluate the preferred peak time frame for the Hybrid TAC so that it will produce equitable results. As illustrated in the SVP's May 1, 2018 comments,⁷ during the colder months (November,

² Silicon Valley Power Review TAC Structure review Straw Proposal comments, May 1, 2018, p. 2.

³ <http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=A6FD5B3B-3638-4F4B-9EDF-B24AEF1DCC44>

⁴ *Review Transmission Access Structure Second Revised Proposal*, CAISO, June 22, 2018, pp. 53-54.

⁵ Silicon Valley Power *TAC Presentation Overview*, August 28, 2017, slide 22.

⁶ Silicon Valley Power Review TAC structure Revised Straw Proposal comments, May 1, 2018, pp. 3-10.

⁷ Silicon Valley Power Review TAC structure Revised Straw Proposal comments, May 1, 2018, pp. 4-7.

December, January, February, and March), the system's peak hours fall within a one to three-hour time frame that is generally between hours 18 and 20. During the warmer months (April through October), there is a wider spread in the peak hours, and the peak time frame ranges from hours 16 to 20. For this reason, ORA agrees with SVP that using a single hour for the coincident peak time frame for the Hybrid TAC is not likely the most equitable solution. ORA recommends further evaluation of the system coincident peak time frame options in the next iteration of this Hybrid TAC proposal to determine the time frame that would have the most equitable outcome.

Given the issues described above and ORA's analysis, ORA predicts that implementing the Hybrid TAC proposal with the proposed 12 CP demand measurement that relies on a one-hour system coincident peak could result in an under collection of revenues for the high-voltage (HV) transmission costs obligations, while not producing rates that are more just and reasonable than the existing volumetric TAC rate structure.

Recommendations for Further TAC Structure Study

Based on a review of the filed HV-transmission revenue requirement (TRR) for the PTOs within the CAISO's balancing area and the CAISO TAC collections dating back to 2011, there appears to be some merit to exploring a TAC structure that aligns better with benefits received and results in rates that are more just and reasonable than the existing all volumetric rate structure.⁸ The CAISO's current TAC recovery method requires some PTOs to pay a higher portion of the total TRR than their area investments. This is because the CAISO combines the transmission investments from all the PTOs within its balancing area, and then recovers this total investment based on load. As a result, PTOs with a higher load pay a significantly great portion of the total TRR obligation irrespective of the transmission investments within their service area. For example, PG&E ratepayers have a greater transmission cost burden than SDG&E ratepayers (\$1,028 million versus \$239 million, approximately) as of March 1, 2018, even though the current transmission investments in PG&E and SDG&E are not significantly different (\$617 million for PG&E versus \$509 million for SDG&E). This is because PG&E has greater load than SDG&E (87 million megawatts hours versus 20 million megawatts hours, respectively). PG&E is not the only PTO that appears to have a greater TAC burden than its actual transmission investments. SDG&E also is not the only PTO that appears to contribute less to the TAC than the costs of its transmission investments based on the recent HV-TRR filings and CAISO TAC collection data at http://www.caiso.com/Documents/HighVoltageAccessChargeRatesEffectiveMar01_2018_RevisedApr09_2018.pdf.

If it is the case that the high voltage transmission facilities within the CAISO's system benefits the entire region, then investments for these projects should continue to be allocated through the existing volumetric TAC structure, but if there are specific facilities that benefit just one PTO then collecting the costs for these investments through other ratepayers seems unjust and unreasonable. ORA reiterates its recommendation that the CAISO conduct a grid usage study to assist in determining the appropriate TAC allocation method.

⁸ *March 01, 2018 TAC Rates Based on Filed Annual TRR/TRBA and Load Data*, CAISO, April 8, 2018.

ORA's main objective regarding the TAC rate structure is that costs be allocated based on the benefits received. While the estimated impact of the proposed Hybrid TAC using 12 CP as the demand measurement will result in an increase in SDG&E's TAC burden, the estimated increase will not significantly address the existing disparity of the TAC burden between PG&E ratepayers and SDG&E ratepayers.⁹ The Hybrid TAC, as currently proposed would also result in a slightly greater TAC burden for SCE because its load is comparatively greater than other PTOs within the CAISO balancing area, and because its system peak is more aligned with the CAISO's system peak than the system peak of other PTOs.¹⁰

Since the proposed Hybrid TAC structure would result in certain PTOs paying less for the transmission benefits they receive, such as VEA,¹¹ ORA recommends that the CAISO continue to evaluate alternatives. In ORA's April 25, 2018 TAC comments, ORA requested that the CAISO consider a "standby" component to the TAC.¹² ORA explained that "transmission infrastructure provides a standby service benefit to all customers that is independent from the energy provided to meet demand off-peak or on-peak."¹³ The existing volumetric structure does not charge for this "ready to serve" service that the existing bulk transmission system provides to all ratepayers. As stated in ORA's comments, submitted on July 31, 2017, the existing bulk transmission system also provides energy services (voltage support, frequency and frequency control, and access to Black Start, Ramping, and Backup resources) to all customers in addition to just energy.

For these reasons, ORA supports consideration of the proposed Hybrid TAC with a ready to serve charge component to better align costs with peak demand and benefits received. One way to calculate the ready to serve charge would be to use the transmission capital expenditures reported in the transmission owner's tariff filings divided by the number of customers the transmission owner serves.

Without understanding the time frame for the proposed 12 CP demand measurement and or reviewing the impact of other alternatives such as using the systems highest peak hours or a ready to serve charge, ORA cannot support the Hybrid TAC Structure as proposed. ORA recommends that the CAISO perform additional studies on the 12 CP measurement to determine the optimal peak time frame per month. The CAISO should also evaluate using highest peak hours to determine the demand component or a ready to serve charge component as suggested

⁹ PG&E ratepayers benefit from the shared costs of Transbay cable through the TAC structure, but if these costs are included with PG&E's filed annual TPP, PG&E would still have a greater TAC burden of approximately \$286 million.

¹⁰ *Review Transmission Access Structure Second Revised Proposal*, CAISO, June 22, 2018, p. 53.

¹¹ ORA has previously objected to the inclusion of Valley Electric Association's (VEA) low-voltage transmission cost obligation in the CAISO's high-voltage-transmission cost recovery on the grounds that VEA should not be treated differently than other Participating Transmission Owners (PTO), and similar to other PTOs it should pay for its low-voltage transmission costs not other ratepayers. Refer to ORA's comments on the Generator Interconnection Driven Network Upgrade Cost Recovery Initiative, December 16, 2016, pp.1-2.

¹² ORA Review TAC Structure Revised Straw Proposal Comments, April 25, 2018, p. 2

¹³ ORA Review TAC Structure Revised Straw Proposal Comments, April 25, 2018, p. 2.

also by CLECA,¹⁴ and SCE.¹⁵ Further evaluation of these options is necessary to achieve a revised TAC structure proposal that is more just and reasonable than the existing volumetric TAC structure.

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.

ORA recommends that the CAISO consider changes in weather patterns from year to year in determining the 12 CP demand measurement. If the CAISO relies on historic data to determine the 12 CP demand measurement, it should consider possible weather extremes or an average demand measurement over a three to five-year time-frame.

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

If the CAISO Board of Governors approves a change in the TAC structure, CAISO staff should evaluate the impact of the Hybrid TAC on transmission cost allocation annually for the next ten years and post this evaluation on the CAISO's web site. ORA requests this information because the Hybrid TAC impact analysis the CAISO presented includes forecasted outcomes for future years 2018 to 2022 assuming no change in load. Because there may in fact be changes in load, the actual outcomes from the implementation of the Hybrid TAC proposal may differ significantly than the forecasted outcomes and should be monitored.

Additional comments

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

ORA has no additional comments on the Hybrid TAC structure proposal at this time.

¹⁴ California Large Energy Consumers Association Review TAC Structure Straw Proposal comments, February 15, 2018, pp. 6 and 8.

¹⁵ Southern California Edison Review TAC Structure Straw Proposal comments, February 15, 2018, p. 2.