

# Stakeholder Comments Template

## Review TAC Structure Stakeholder Working Groups

Submitted by	Organization	Date Submitted
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Upon completion of this template, please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **October 13, 2017**.

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

NOTE: See last page for definitions of some key acronyms and terms.

1. One concept for allocating the costs of the existing transmission infrastructure is to charge each user of the grid in accordance with their usage of or benefits received from the grid. What do you believe is the most appropriate way to measure each end-use customer's or load-serving entity's (LSE) benefits or usage of the grid? What specific benefits should be considered? Please explain your answer.

The State Water Contractors organization's focus is transitioning the High Voltage TAC (HV-TAC) and the Low Voltage TAC (LV-TAC) from the current volumetric rate to a monthly coincident demand-based charge based on the demand net of variable renewable energy or "net demand."

The existing transmission system was constructed to meet maximum demand conditions that are tied directly to capacity. A large portion of future transmission costs within California are forecast to be driven by repair and replacement of the existing transmission facilities. A change to a coincident net demand-based charge will bring the transmission cost recovery in alignment with the cost drivers for the bulk of past and future transmission expenditures. This shift will meet FERC's requirement that cost responsibility track cost causation to a greater degree than the current volumetric approach. This update is long overdue.

Page 8 of the CAISO's June 30, 2017 *Review Transmission Access Charge Structure Issue Paper* states "The original structure based on a volumetric \$/MWh rate was established to reflect the fact that the ISO market, through which use of the transmission system is allocated and scheduled, is an energy market, not capacity market. In other words, use of the ISO controlled grid is scheduled based on the hourly MWh energy volumes for which market

participants need transmission service, and the current volumetric TAC and WAC rate structure aligns with this market structure." This justification for relying on a volumetric rate is just part of the story.

Scheduling on the ISO controlled grid is a transmission constrained allocation as evident from the congestion revenue rights market. The capabilities of the transmission system play a controlling role in how the energy market is allowed to function. Movement to a coincident net demand-based charge will correctly align transmission charges with the reality that transmission capabilities are a controlling limitation on the functioning of the energy market.

Workshop discussions pointed out that new transmission additions are tied to Public-Policy goals, such as the delivery of energy from preferred resources, which are primarily energy functions not capacity functions. Since the transmission system is a complex integrated system some energy function and some capacity function will exist on all of the transmission system components. Workshop discussion and background material also acknowledge that it is nearly impossible for a single rate structure to capture all cost allocation drives. The test for any cost allocation methodology is whether the process establishes a structure that best meets the principles of transmission rate design. A coincident net demand-based charge relies on the primary role and cost causation for the ISO transmission system; providing customers reliable service during peak demand periods. The use of coincident net demand is a necessary step that aligns the transmission charges with the primary role and cost causation by removing the influence of transmission additions tied to Public-Policy goals. FERC has approved more demand based transmission charges than volumetric charges so there is sound logic for the ISO moving to a monthly coincident net demand-based charge.

2. The example the ISO presented at the August 29 working group meeting (slides 21-22 of the ISO presentation) illustrated how using transmission energy downflow (TED) as the high-voltage TAC billing determinant (instead of end-use metered load) affects all ratepayers of each utility distribution company (UDC) irrespective of which LSE serves that load. If the ISO were to adopt TED as the billing determinant for the high-voltage TAC, what further procedures would be needed to ensure that the benefits of reduced TAC payments go to the correct LSEs that make the decisions to procure DG? Please explain your answer.

The State Water Contractors will continue to track this issue and potentially offer comments once the concept is developed further.

3. The ISO could (a) continue to use the end-use metered load (EURL) or customer energy downflow (CED) as the basis for assessing high-voltage TAC, or (b) propose a change to assess HV TAC based on downflow at the transmission-distribution interface (T-D TED), or (c) assess HV TAC based on downflow at the interface between the high-voltage and low-voltage transmission systems (HV-LV TED). Does your organization prefer one of these approaches at this time? Please explain the reasons for your preference.

The State Water Contractors will continue to track this issue and potentially offer comments once the concept is developed further.

4. Does your organization believe that any of the options in the previous question present any potential problems or issues that have not been identified or explained during the stakeholder process thus far? If so, please explain. Also, please indicate what other analyses could be done to help understand the impacts of changing the point of measurement?

The State Water Contractors will continue to track this issue and potentially offer comments once the concept is developed further.

5. Does your organization believe that the ISO should change *only* the point of measurement utilized for assessing TAC apart from considering other changes to the TAC structure? Alternatively, should the ISO change the point of measurement in conjunction with other changes to the TAC structure? Please explain your position.

The State Water Contractors organization's focus is transitioning the High Voltage TAC (HV-TAC) and the Low Voltage TAC (LV-TAC) from the current volumetric rate to a monthly coincident net demand-based charge. The SWC believes this fundamental change in TAC structure should proceed with or without changing the point of measurement utilized for assessing TAC.

6. Does your organization believe that changing the point of measurement for assessing TAC to use TED instead of metered customer demand will result in increased procurement of DG by LSEs? Please explain your position.

The State Water Contractors will continue to track this issue and potentially offer comments once the concept is developed further.

7. Does your organization believe that increased procurement of DG by LSEs will reduce the need for future investment in transmission infrastructure? Please explain your position.

The State Water Contractors will continue to track this issue and potentially offer comments once the concept is developed further.

8. The Clean Coalition provided a spreadsheet and documentation (available at the ISO's TAC initiative web page link on page 1) showing their approach for estimating the savings from avoided future transmission investment that could result from increased DG procurement in response to the ISO adopting TED as the point of measurement for assessing TAC. Does your organization believe that Clean Coalition's analysis provides a reasonable projection of transmission cost savings as a result of DG growth? Please explain your position.

The State Water Contractors will continue to track this issue and potentially offer comments once the concept is developed further.

9. If you do not agree with Clean Coalition's projections of transmission cost savings, what approach would you suggest for estimating savings from reduced need for future investment in transmission that could result from increased DG development?

The State Water Contractors will continue to track this issue and potentially offer comments once the concept is developed further.

10. The ISO must decide what types of analyses to perform to evaluate alternative TAC approaches, and how to prioritize them. Please provide your organization's view on what analyses would be most useful, and indicate the relative importance of each analysis you recommend to assist the ISO in determining which analyses should take precedence.

The State Water Contractors organization believes it would be a worthwhile exercise to develop the cost distribution impact of changing from the current volumetric approach to a monthly coincident net demand-based charge. This exercise will allow any transitional issues to be examined during the current stakeholder process.

11. How can the ISO evaluate the downstream financial impacts of potential changes to the TAC structure? What data would best inform the ISO and stakeholders of the potential impacts to various entities? Does your organization believe the ISO should focus on this question now, or wait until potential TAC structure options are better defined (e.g., after the ISO issues a straw proposal)? Please explain your position.

The State Water Contractors will continue to track this issue and potentially offer comments once the concept is developed further.

12. How are transmission needs and costs driven by the delivery of energy versus the provision of capacity necessary to meet peak load conditions? Please explain your position.

The primary role of the transmission system is to providing customers reliable service during peak demand periods. The existing transmission system was constructed to meet maximum demand conditions that are tied directly to capacity. A large portion of future transmission costs within California are forecast to be driven by repair and replacement of the existing transmission facilities and, thus, are also tied to capacity. Workshop discussions and stakeholder input emphasized that a significant portion of Public Policy driven transmission additions may be tied to energy. Public Policy issues will change in scope over time but the need to provide customers reliable service during peak demand periods are perpetual. A change to a coincident net demand-based charge will bring the transmission cost recovery into alignment with the cost drivers for the bulk of past and future transmission expenditures and provide a workable allocation process now and in the future.

13. In considering potential changes to the TAC structure, what kinds of changes would best align with the impacts of energy delivery, peak load and other drivers of new transmission investment? Please explain your answer.

Changing to a monthly coincident net demand-based charge will bring the transmission cost recovery in alignment with the cost drivers for the bulk of past and future transmission expenditures. Public Policy issues will change in scope over time but the need to provide customers reliable service during peak demand periods are perpetual. The persistence of demand based transmission charges in other ISOs/RTOs point to the robustness of a demand based charge over the volumetric charge over the full scope of rate design issues. Use of net demand will provide the correct cost signals by aligning charges with peak pricing periods. The net demand approach is also consistent with transmission planning assessments that consider alternatives such as Remedial Action Schemes, phase shifters, capacity banks and generation siting that are more efficient and cost effective than new transmission additions.

14. What are the cost drivers of operating and maintaining the existing transmission system and what, if anything, could materially affect these cost drivers? In particular, does your organization believe that increasing the share of load served by DG can reduce any costs associated with the existing transmission system? Please explain your position.

The primary role of the transmission system is to providing customers reliable service during peak demand periods. The existing transmission system was constructed to meet maximum demand conditions that are tied directly to capacity. The operation and maintenance of the existing transmission system fall under the same need of providing customers with reliable service during peak demand periods.

15. Please offer any other comments your organization would like to provide on the material discussed in the two Review TAC Structure Working Group meetings (August 29 and September 25), or any other aspect of this initiative.

The State Water Contractors organization has no additional comments to offer on the Transmission Access Charge Structure at this time.