

Valley Electric Association, Inc. Comments on the CAISO Review Transmission Access Charge Structure Straw Proposal

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Valley Electric Association, Inc. (VEA) appreciates the opportunity to provide comments on the ISO's Review Transmission Access Charge Structure Straw Proposal that was posted on January 11, 2018 and discussed at the January 18, 2018 stakeholder meeting. VEA has a vested interest in this stakeholder process as it is currently allocated Transmission Access Charge (TAC) costs based on its total annual energy, thus any modification to the current allocation process will impact VEA and its ratepayers.

VEA recognizes that the use of the grid has evolved over time and is supportive of allocating costs based on cost-causation principals, but only to the extent there is a strong relationship between the allocation methodology and the factors driving the costs. While VEA appreciates the ISO's willingness to explore alternative options for allocating the high voltage TAC costs, VEA questions the appropriateness of the currently proposed methodology.

It is VEA's understanding the ISO is proposing to initially split the TAC costs into two buckets – capacity/reliability and energy delivery buckets – based on the type of project per the Transmission Planning Process (TPP). Projects labeled as reliability projects via the TPP would be included in the capacity/reliability bucket, and economic and policy projects included in the energy delivery bucket. The two cost buckets would then be allocated based on a volumetric and peak demand calculation respectively in an attempt to capture the cost drivers and the usage of the system.

However, given the factors described below, VEA questions the extent to which the proposed allocation of TAC costs aligns with cost-causation.

- *The reliability cost bucket will inherently include policy and economic driven costs.* The TPP identifies projects in a sequential manner – reliability, policy, and then economic projects. Projects first identified as a reliability project can also provide policy and economic benefits. Therefore, bucketing the costs based on the type of project approved in the TPP will, by virtue of the TPP methodology, have some economic and policy driven costs included in the reliability cost bucket.
- *The allocation of TAC costs will become volatile, especially as California continues to pass legislation that results in policy driven projects.* For example, with 33% RPS, the majority of transmission projects were labeled as policy-driven projects, driving up the allocation of costs that went into the energy delivery cost bucket. As a result, each year the ISO recalculates the division of costs, the allocation of costs between the capacity and energy delivery buckets could change dramatically – most notably in years California passes a new piece of legislation that drives transmission projects.

- *Peak demand of system may differ from peak conditions used in TPP that drove the need for a given project.* VEA's peak demand may occur at a different time/season relative to the other UDC peak demands, and could be different substantially from the peak demand conditions used in the TPP that drove the need for a reliability project. In addition, there is a locational misalignment quality to the proposal. Under this proposal high voltage project costs would be allocated to all UDCs based on their individual peak demand need, even though the need for the project was initially based on a local need.
- *There remains a fundamental question if embedded costs of a system should be allocated based on changing use of the system.* The ISO acknowledges that the proposed methodology would change the way in which existing transmission costs are allocated. One motivation for exploring a new allocation method is the changing use of the transmission system. VEA questions if it's appropriate to allocate sunk/embedded costs of the system that were incurred due to historical use of the system based on the evolving use of the system rather than that which drove the need for the investment initially.

The second alternative proposed by the ISO is a simplistic split of the initial TAC costs into the capacity and demand-based buckets of 50/50. While this may appear to be a reasonable approach given the initial numbers provided by the ISO as an illustrative example in the proposal, it's an arbitrary split, and thus has no direct link to cost causation factors or the use of the transmission system.

VEA appreciates the ISO's consideration of these comments and looks forward to further discussions around the validity and necessity to modify the current TAC allocation structure.