

CLECA Comments on Rate Design for Recovery of Transmission Costs

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Cost Causation

- What are the key functions served by the transmission system?
 - Reliably serving peak system load and net peak load (peak capacity)
 - Reliably serving load in locally-constrained areas, e.g., the new transmission requirements due to SONGS shutdown (peak capacity)
 - Delivering energy to load (grid capacity)
 - Meeting public policy goals by providing access to preferred resources (grid)
- The costs of the transmission system are overwhelmingly capacity costs
- What is driving the use of the transmission system? Is it load, net load, delivering preferred resources or a combination, i.e. peak and grid?
- What causes the loading on the transmission system to peak (diurnally and annually) and when? This is an empirical question. Are data available?

Basis for Current Transmission Investment

- Recent transmission investment has been built:
 - To build out the CAISO-controlled grid for Open Access Transmission (grid)
 - To serve load using resources not located near load (grid)
 - For public-policy reasons like bringing preferred resources to load (grid)
 - To provide system and local reliability (peak)
 - To reduce congestion (peak and grid)
 - For repair and replacement-most transmission investment has a 33-40 year life (peak and grid)
 - For better grid operations (grid)

Why Is New Transmission Being Built?

- *Not* to meet load growth, since load is barely growing.
- *Not* for reliability and local capacity requirements and deliverability assessments, according to the CAISO (e.g. 2016-2017 TPP at 102-104).
- For delivery of energy from preferred resources (policy-driven).
 - This is a grid function.
 - It is not clear how much additional transmission will be built for this purpose beyond what is currently approved.
- Repair and replacement. For PG&E, there is a claim that 60% of transmission expenditures fall into this category. (CPUC et al v. PG&E EL-17-45 at 3-4) This is not marginal and is not readily avoidable, unless the facilities can be abandoned.

Marginal Transmission Costs Should Only Reflect Load-Driven Investment

- Marginal costs represent an increment of investment driven by an increment of load.
- Most current and new transmission investment is not driven by load growth and is not marginal.
 - For SCE, its RDW reply testimony shows that only 2-4% of its forecast transmission system cap ex is load-growth related
 - The rest is for RPS, reliability, and grid operations needs
- The result is low marginal transmission capacity costs.
 - For PG&E, a response to a CLECA data request in its GRC Phase 2 shows a MTCC of \$3.93/kW-year
 - For SCE, a response to a CLECA data request in its GRC Phase 2 shows a MTCC of \$21.40/kW-year
- The data do not support claims that there are large marginal or avoidable transmission costs

Recovery of Transmission Costs Through Demand vs. Energy Charges

- The existing transmission revenue requirement is sunk and must be recovered. FERC uses embedded costs, not marginal costs. However, even if marginal costs were used to set transmission rates, they would have to be scaled to recover the embedded transmission revenue requirement.
- Currently transmission costs are generally allocated to rate groups on the basis of their contribution to monthly system coincident peak loads.
- These costs are recovered from retail customers in demand charges from larger customers and energy charges for smaller customers. They could be recovered through TOU demand and/or energy charges (assuming FERC approval), although variable costs are minimal. FERC has approved volumetric recovery of grid-related transmission costs for MISO, based on the argument that energy flows and the corresponding benefits would occur in all hours of the year, not just during peak demand and would change over time. (FERC Docket No. ER-10-1791)

TOU Rates for Transmission?

- TOU issues
 - Commission policy is to base TOU periods on costs, informed by loads. (D. 17-01-006)
 - Whether with embedded costs or marginal costs, TOU differentiation requires at least hourly cost data. Do these exist?
 - Loading on the transmission system is an empirical question. We understand that telemetry is limited. What data exist?
- Energy or demand charges can vary by TOU, partly or fully. It is possible that peak-related transmission costs would be TOU-based and grid-related costs would not be TOU-based.
- In an embedded cost context, TOU pricing could also be used to reflect periods of higher and lower system costs