

Transmission Pricing Work Group

Recommendations and Open Issues

August 2, 2000

Transmission Pricing WG

Principles and Objectives of Transmission Pricing WG:

Contract for use and control of transmission facilities

Compensate the Owners of the facilities for use and control

Provide a consistent and unbiased usage of the facilities by all parties.

Develop a pricing structure that minimizes cost shifts among companies and resulting loads

Develop access fees that are not pancaked and in the absence of congestion, paying a Transmission Access Fee will provide a customer with access anywhere within RTO West.

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Review of Assign Issues:

- **Recovery of Fixed Transmission Cost**
- **Transmission Losses**
- **Price Reciprocity and Other Seams Issues – Work with Seam WG**
- **Transmission Planning – Work with Planning WG to ensure Pricing Signal Mechanism**
- **RTO tariffs – Eliminate discrimination, Support Legal WG to ensure Transmission WG does propose discrimination practices**
- **Transmission Congestion Reservations and the Suspension of Existing Transmission Contracts – Work with Congestion Management and Legal WGs**

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Review of Assigned Issues (continued):

- **Customer Benefits - Assigned to another WG**
- **Economic Incentives to Owners to Join RTO – Assigned to Transmission Owners**

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Presentation Topics:

- **Issues Assigned to Transmission Pricing WG**
- **WG Recommendations**
- **WG Open Issues – Close to a Recommendation**
- **WG Open Issues**
- **Summary Recommendations / Direction to WG from RRG**

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Issues Assigned to Transmission Pricing WG:

- **Recovery of Fixed Transmission Cost**
 - **Partial Recommendation and Open Issues**
- **Transmission Losses**
 - **Recommendation Included**
- **Price Reciprocity and Other Seams Issues**
 - **See Export Options**
- **Transmission Planning – Pricing Mechanism**
 - **Joint subgroup working with Planning WG**

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Issues Assigned to Transmission Pricing WG (continued):

- **Joint subgroup working with Planning WG**
- **RTO tariffs – Work with Legal to ensure Transmission Pricing WG**
- **Transmission congestion reservations and the suspension of existing transmission contracts –Work with Legal and Congestion Management WGs**

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Recovery of Fixed Transmission Cost:

- **Consensus**
 - **Company Rate – Starting Rate**
 - **Load Based Rate**
 - **Keep Revenue Requirement in Country (US and Canada)**
- **Near Consensus - Close to a Recommendation**
 - **Export Fixed Cost Recovery**
 - **Island Rate**
- **WG Open Issues**
 - **End State Rate**
 - **Transfer Payment / Transition of Transfer Payment**
 - **Facilities in RTO**

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Consensus

Recovery of Fixed Transmission Cost:

- **Company Rate – Starting Rate**
 - **Blended Rate – Company Rate + portion of RTO uplift**
 - **Minimizes Cost shift**
 - **Load Based Rate**
- **Keep Revenue Requirement in Country of Origin (US in US and Canada in Canada) – Consistent with US – Canada Adjunct Committee**

Transmission Losses:

- **Handle on a transactional basis**
- **Exact method to be defined by RTO West**

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Recovery of Fixed Transmission Cost: Near Consensus

- **Export Fixed Cost Recovery**
 - **Method 1 - Transfer charge amounts comparable to the currently-applicable charges for such firm service, in exchange for FTRs equivalent to their current firm export right**
 - **Developed by a subgroup (twice reviewed)**
 - **Method 2 - Volumetric Charge**
 - **Recent proposal, position being developed for discussion on Friday, 8/4.**

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Recovery of Fixed Transmission Cost: Near Consensus

- Island Rate

- Is the concept of Island Rate needed in RTO West?
- Evaluating concept similar to IndeGO
 - Key issue is how to price net load service
 - If the BPA and other PTO company rate includes a net load option, then Island rate may not be necessary

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Recovery of Fixed Transmission Cost: WG Open Issues

End State Rate

- Data needed by WG to evaluate options
- Company Blended Rate (t=1) Old Company rate + End State Rate + RTO Uplift Component
- Five End State Rates - Under Review
 1. Replacement, upgrade and new facilities - RTO postage stamp rate component, if they pass the 7 factor test + facilities to wholesale (7-F /W) criteria. Replacement, upgrade and new facilities that do not pass the test - remain in company rate component. Company rate will decline and depending what is left in the Company rate it may approach zero.

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Recovery of Fixed Transmission Cost: WG Open Issues

End State Rate (continued)

- 2. Replacement, upgrade and new facilities - RTO postage stamp rate component, if the facility is 200 KV or higher and passes the 7 factor test (7-F). Replacement, upgrade and new facilities - below 200 KV remain in company rate component.**
- 3. Replacement, upgrade and new facilities - area license plate rate. Replacement, upgrade and new facilities that benefit the RTO are placed in RTO postage stamp rate component. Company rate component would go to zero as the existing assets depreciate.**

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Recovery of Fixed Transmission Cost: WG Open Issues

End State Rate (continued)

- 4. Replacement, upgrade and new facilities - RTO postage stamp rate, if FERC states the facility must be controlled by the RTO. Replacement, upgrade and new facilities - not explicitly required by FERC to be controlled by the RTO would stay in the company rate component.**
- 5. Replacement, upgrade and new facilities - RTO postage stamp rate component, if the facility is 200 KV or higher and passes the 7 factor test (7-F). Replacement, upgrade and new facilities - below 200 KV are placed in an area rate component. Company rate component would go to zero as the existing assets depreciate.**

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Recovery of Fixed Transmission Cost: WG Open Issues

End State Rate – Next Step for WG

- **WG meets Thursday, 8/3 to evaluate end state options**
- **Need to examine how each of these options:**
 - **Affect customers in different areas**
 - **Segmented voltage levels spreads cost**
 - **Generate cost shifts**
 - **Recover the costs of needed replacements and additions over different customers**

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Recovery of Fixed Transmission Cost: WG Open Issues

Transfer Payment / Transition of Transfer Payment:

- **Transfer payment – Contributes to stability of company rate**
- **Represents Net of (Paid To – Received From)**
- **Historically consisted of:**
 - **long term wheeling, short term wheeling, short term non-firm wheeling, and imputed transmission component of both long and short term bundled contracts**
 - **requires knowledge of the load**
- **With IPPs and Marketers**
 - **Know the transmission usage component**
 - **Much harder to determine the location of the load**

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Recovery of Fixed Transmission Cost: WG Open Issues

Transfer Payment / Transition of Transfer Payment (continued):

- No consensus on which components are included
- Collecting data on Paid To's and Received From's
 - Quantity known allocation to load
 - May need to use approximation (Montana Proposal) to achieve overall net transfers

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Recovery of Fixed Transmission Cost: WG Open Issues

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Recovery of Fixed Transmission Cost: WG Open Issues

Transfer Payment / Transition of Transfer Payment (continued):

- **Steps proposed by the WG:**
 - I. Collect the data and reconcile to determine the magnitude of the various components that make up the transfer payment.**
 - II. In parallel, evaluate if an approximation can be used such as the method proposed by Montana Power.**
 - III. Resolve at WG level - most likely this will need to be elevated.**

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Recovery of Fixed Transmission Cost: WG Open Issues

Transfer Payment / Transition of Transfer Payment (continued):

- **Transfer Payment Alternatives:**
 - 1. Use all historical components of the transfer payment.**
 - 2. Use some of the historical components of the transfer payment or adopt some other method such as company generation surplus or deficient calculation offered by Montana Power.**

Have a cost shift or find a revenue stream to compensate for a cost shift or a combination of cost shift and revenue stream.

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Recovery of Fixed Transmission Cost: WG Open Issues

Transfer Payment / Transition of Transfer Payment (continued):

- **Transition Alternatives:**
 1. **Schedule the payment to decline on a common depreciation schedule for existing facilities.**
 2. **Schedule the payment to decline over a defined time period (e.g. 5 or 10 years) and accept cost shift.**
 3. **Keep the payment constant.**

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Recovery of Fixed Transmission Cost: WG Open Issues

• Facilities in RTO whose Recovery of Fixed Cost is allocated beyond Company Boundaries

- **Three options initially given for WG to evaluate when WG was focused on options other than Company Rates**
- **Equity issue if rate other than company rate**
- **Consistent method needed, e.g. FERC 7-Factor Test**
 - **Room for interpretation**
 - **Need independent process to achieve consistency**
- **Wholesale facilities – evaluated individually**
 - **Complement the purpose of the RTO**
 - **Facility shared with other connected loads**

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Recovery of Fixed Transmission Cost: WG Open Issues

• Facilities in the RTO whose Revenue Requirement is Allocated to a wider region than Company Rate

- Alternatives Under Review in End State Evaluation
 - Facilities that pass the 7 Factor test
 - Facilities that pass the 7 Factor test + wholesale
 - Place Transmission Facilities in RTO and let FERC reject facilities that should be excluded.
 - Facilities that FERC says must be included in the RTO to met functions required by RTO

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Recommendations:

- Next Step for WG
 - Keep Addressing Open Issues
 - Provide Additional Consensus Next Week and Position Statements on Non-Consensus Issues
- Provide direction as Policy Statement on Open Issues
- Conditionally accept the Consensus provided in this Report
- Provide Clear Drop Date for Recommendation / Deadlock

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Work Group Future Activities

- **Continue to Meet to Resolve Open Issue**
- **Work With Other Work Groups To Complete Issue Handoff**
- **Support Discussions As Requested**
- **Work with Legal On Tariff Generation**
- **Generate White Paper**

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- **Questions/Comments**

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**The following are submittal handouts
and not part of formal presentation.**

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Calendar:

May 18, 2000	Kick Off Meeting for WG - Complete	RTO West Facility
May 25	TXPR WG Workshop #1 Complete	RTO West Facility
May 30	TXPR WG Meeting #2- Complete	RTO West Facility
June 2	TXPR WG Meeting #3-Complete	Telephone
June 9	TXPR WG Meeting #4-Complete	Telephone
June 14	TXPR WG Meeting #5-Complete	Telephone
June 23	TXPR WG Meeting #6-Complete	Telephone
June 29-30	TXPR WG Meeting #7-Complete	RTO West Facility
July 13-14	TXPR WG Meeting #8-Complete	RTO West Facility
July 20-21	TXPR WG Meeting #9-Complete	RTO West Facility
July 27-28	TXPR WG Meeting #10-Complete	RTO West Facility
August 3-4	TXPR WG Meeting #11	RTO West Facility

More face to face time required.