How Long Should Company Rates Stay in Place?

Background

At its August 3 meeting, based upon a proposal submitted by Bonneville, Idaho Power, and PacifiCorp, the RRG instructed the Pricing Work Group to focus its efforts on "Option 6" which provides:

> Company Rates will remain in effect for a fixed period of time (such as ten years), at which time the entire rate design may be revisited and potentially may be changed by the RTO.

There are a number of other additional issues that need to be resolved in order for the RRG to fully evaluate Option 6; however, the RRG has now received work group input on many of these issues and, if Option 6 is adopted, the RRG needs to determine the length of time that Company Rates will stay in place.

Implications of Maintaining Company Rates

The overall concept of maintaining Company Rates with respect to existing facilities is to keep Participating Transmission Owners ("PTO") whole and delay the transition to the end-state rate (such as a postage stamp rate).

Pros

- Prevents the problem of immediate cost shifts between PTOs
- Provides PTOs more autonomy in decisions involving their existing facilities as their decisions would not affect other transmission owners
- Allows a PTO the latitude to deal with its customer issues individually (not one size fits all)
- Limits the number of states involved with an individual PTO's rate recovery
- Deals with the pricing implications of transmission owners joining the RTO subsequent to its formation and PTOs leaving the RTO
- Acceptable to the majority of interested parties

Cons

- Delays transition to postage stamp rate, one of FERC's policy/regulatory objectives
- Although the "no cost shift" principle is clear, implementation can be difficult and, if it is not done correctly, PTOs might experience cost shifts during the Company Rate period
- Some parties believe that PTOs that are required to make transfer payments after the contracts giving rise to the transfer payments expire are disadvantaged (as compared to other users of the RTO system) unless (1) another revenue stream is used to offset the PTOs' transfer payment obligations (for example, auction proceeds from the sale of FTRs), or (2) the PTOs continue to hold the FTRs relating to such transfer payments notwithstanding the expiration of the underlying contracts. (Note: (2) is inconsistent with the Congestion Management Work Group's current discussion of how to handle pre-existing contracts.)
  - For example, load-based rates do not provide a mechanism to collect transfer payments from non-PTO customers (<u>e.g.</u>, IPPs) that is equivalent to the transfer payment allotted to a PTO
  - Without appropriate treatment, transmission owners might have an incentive not to join the RTO:
    - Transmission owners could avoid having to make continuous transfer payments after their long term contracts expired
    - Transmission owners would not have to make transfer payments for short-term transactions based on historical levels of usage, etc.

<u>Input from Project Management Team</u>

The outcome of this issue is likely to be a political compromise rather than a technical solution. As such, there is not a work group recommendation, but the project management team recommends that the RRG consider the following when negotiating this issue.

- The parties agree that the primary goal of Company Rates is to eliminate cost shifts
- Cost shifts can be eliminated by approximating what would happen if the RTO is not formed
- The parties do not agree on how this should be accomplished
  - Not yet agreement on how imputed transmission costs related to firm and non-firm power sales should be allocated

    - Not yet agreement on how lost revenues from third party short-term firm and non-firm wheeling should be handled
    - Not yet agreement on whether transfer payments should be constant
- The RRG has an opportunity to provide guidance to help facilitate resolution of these issues
    - The RRG could agree to an "angle of repose" – a Company Rate period that facilitates resolution of the above-issues, yet provides enough certainty to incent parties to go forward with the RTO
        - For example, it might be easier to resolve the treatment of the expiration of pre-existing contracts during the Company Rate period if parties knew that the resolution would only be in place for an acceptable period of time (e.g., "x" years after contract expiration)
    - The RRG could consider a reopener during the Company Rate period based upon a pre-determined threshold
    - The RRG might also benefit from a discussion of the specifics of the process for RTO review of the pricing structure at the end of the Company Rate period – e.g., the parties will have a deadline to reach agreement on changes to the pricing structure and, if they do not reach a timely agreement, they would be required to go to FERC for a jump-ball determination