Transmission Pricing Work Group Issue Paper TXPR-01

Issue - Transfer Payments, is it constant or subject to change

Issue Description

Should the Transfer Payment Remain Constant during the Period of Company Rates

Background

The document entitled Bullet Points on Resolution of RTO Pricing Issues (option 6) states that "During the Company Rate period (i.e. 10 years), the transfer charges will remain constant (*over the 10 year period*), except that any transfer charges tied to a specific FTR shall expire at such time as the related FTR's expire. Other exceptions to a constant transfer charge may be appropriate on a case by case basis." (*Parenthetical added*)

The company rate is based on the individual companies' revenue requirements less transfer payments Transfer payments are payments from one PTO to another PTO to reflect the existing cost of wheeling across their respective transmission systems. Transfer payments are subtracted for the company rate in order to minimize cost shifts. If transfer payments were not included in the calculation of the company rate, then those utilities that have large wheeling revenues would have higher rates under the RTO than they have at present.

Alternatives Considered

Geoff Carr developed this backup for the three approaches to transfer payments that have been discussed by the pricing group:

1. Assume constant transfer payments over the company rate period
2. Allow transfer payments to change to reflect explicit price changes provided for in existing contracts
3. Allow transfer payments to change to reflect increases in company transmission rates over the company rate period

Alternatives

Alternative 1 - Assume constant transfer payments over the company rate period (note: Does "constant" mean "constant nominal"? Would another alternative be "constant real", using a stipulated rate of inflation?).

Arguments for:

- Simplicity

- No need to follow each company's rate cases

Arguments against

- Company revenue requirements and rates will change over the 10 year period, and the constant transfer payments won't reflect this
- Since this proposal locks in transfer charges for 10 years and since the company rate is the revenue requirement less the transfer charges, the increased costs of the existing system will be borne by the non-transfer load paying the company rate.
- Even if companies pledge to have no rate increases over the 10 year period, these increased costs will fall on customers at the end of the period, due to delayed maintenance.
- Some transfer payments are based on contracts that expire during the ten-year period, and it does not seem reasonable to lock future payment streams into what would be automatic extensions of existing contracts, when there is a parallel discussion over what "PECs" really mean.

<u>Alternate 2 - Allow transfer payments to change to reflect explicit price changes provided for in existing contracts.</u>

Arguments for:

- Simplicity
- No need to intervene and participate in each company's rate cases
- Accuracy in terms of reflecting reasonable expectations about future conditions

Arguments against

- Company revenue requirements will change over the 10 year period, **<u>in addition to those explicitly described in the contract</u>**, and transfer payments won't reflect this
- Since this proposal locks in transfer charges for 10 years and since the company rate is the revenue requirement less the transfer charges, the increased or decreased unit costs of the existing system will be borne in part by, or will flow to the benefit of the non-transfer load paying the company rate. Under Alternative 2, this is less of a problem than under Alternative 1.
- Even if companies pledge to have no rate increases **<u>except for those explicitly described in the contract</u>**, over the 10 year period, these increased costs will fall on customers at the end of the period, due to delayed maintenance

Alternate 3 - Allow transfer payments to change to reflect increases in company transmission rates or revenue requirements over the company rate period. These allowed for changes would be as a result of FERC or other regulatory body approved rate changes.

Arguments for:

- Transfer charges and company rates will better reflect the then-current costs of the PTO over the company rate period
- Those customers facing the non-transfer costs of the utility will not have to bear all the costs, and will not receive all of the benefits, of utility revenue requirement increases or decreases
- Better reflects what would have happened absent the RTO

Arguments against

- Need to intervene and participate in PTO transmission rate cases and track rate changes over time

WG Recommendation - WG Recommends is split on this issue

Rationale Behind Recommendation

Rationale is presented in the alternatives.

Linkage to Other Major Issues

TXPR 02 – Imputed Transfer Payments For Short Term Firm and Non-Firm Bundled Power Sales

TXPR 03 – Imputed Transfer Payments For Long-Term Firm Bundled Power Sales

Handling of Transfer Payments in general (i.e., incentive to join the RTO Vs be a user of the RTO assets)