STTP Pool Cap

Proposal Element: Cap on "pool" of short-term revenues to be recovered through a grid management charge.

- *How do we set the cap?*

Background

Under pre-RTO pricing, utilities gain revenue from sales of short term and non-firm transmission services. Some utilities may have derived a significant portion of their revenue requirement from these sales. The RTO West pricing model may not produce this historic revenue stream because transmission rights will sell at market prices. In the absence of congestion, transmission rights should sell for zero.

The RTO West pricing model separates the historic short-term revenue into two components – the revenue from other PTO's, called short-term transfer payments (STTP), and the revenue from other parties, called "Lost Revenue". In the current pricing model, the Filing Utilities have proposed to share the recovery of both of these components of short-term revenues. The short-term revenue claims are to be pooled, with the total pool recovered through a grid management charge.

The current proposal intends that not all of the STTP revenue would be collected through the shared pool. This reduction reflects some uncertainty in level of entitlement due to volatility of the short-term market and some concern about over recovery from selling FTRs, at least in the secondary markets. The size of this reduction is essentially a negotiated amount that should appropriately balance collecting revenues and recognizing uncertainty.

Decision points on setting the size of the STTP pool cap:

1. Applicability of a cap

Does the limitation on shared revenue recovery apply to both the Lost Revenue and the STTP?

Suggestion – require only a reduction in the STTP revenue being shared.

2. Relationship of a cap to the test year

The implementation of a cap, or reduction in size of the shared revenue pool, requires utilities to take actions such as converting short-term sales to long term. These actions have to be measured against the test year (or the negotiated pool amount) and be accomplished prior to the start of RTO West. If the test year keeps moving, it will be nearly impossible to sort out what qualifies, and the ability to take the actions will be lost. Thus, if the test year changes, the cap should be eliminated.

> Suggestion – keep the negotiated amounts reflecting an approximation of 2000 conditions and apply a cap as discussed below.

3. <u>Mechanics of a cap</u>

The amount of revenue being shared can be limited by imposing a cap to fix the amount of revenue in the pool. Or, it can be limited by setting the amount that utilities will bear themselves by fixing a reduction obligation. If the amount of the underlying STTP revenue changes, these can produce different results. The fixed reduction approach provides greater certainty to utilities in how much exposure they face for direct responsibility.

> Suggestion – impose a fixed reduction amount.

4. <u>Size of reduction</u>

The pricing model currently uses $20M as an illustration. This has receiving utilities potentially facing a $10M shortfall. Is this an acceptable level?