Pricing Work Group Update

April 29, 2005

RRG Meeting

Some key points for pricing

- The Grid West market design proposal contemplates a physical rights system.
- What does this mean?
  - ➢ Much like today, a user must have physical rights *BEFORE* submitting a schedule
  - ➢ Transmission rights (Injection/Withdrawal Rights or "IWRs") identify quantity and location of energy injections and withdrawals
  - ➢ Short-term flexibility and tradability through reconfiguration service

Some key points for pricing

- This is fundamentally different from the RTO West Stage 2 proposal.
- RTO West proposed to “accept all schedules”
- A load-based access fee (derived from costs of a single system) conferred rights to schedule on any part of this system
- Those without congestion rights faced congestion charges for any redispatch costs incurred to accommodate a requested schedule.

Some key points for pricing

- Under the Grid West proposal, IWRs will be issued from system capability determined on a flow basis
- Requiring a load to pay an access fee (load-based embedded cost contribution) cannot give the load IWRs to use the entire network
- Otherwise, all loads on the system would have simultaneous physical rights to use all parts of the system (which would not work!)
- Without explicit congestion charges to sort out the competing demands for long-term service, obtaining and pricing long-term rights must be done on some other basis

Some key points for pricing

- We need an approach that will:
  - address how to price new long-term transmission rights in a multi-system structure
  - provide appropriate cost recovery for new long-term service (including exports)
  - charge for long-term rights from AFC on a basis that is consistent with:
    - short-term reconfiguration services and
    - charges for long-term rights from system upgrades or expansions

Some key points for pricing

- Consistency between short-term and long-term transmission rights:
  - TSLG current market design: reconfiguration service will enable economic trading of transmission rights among transmission rights holders
  - This trading process will help establish a value for short-term transmission rights that reflects the value of avoiding transmission congestion
  - Use of the transmission system becomes more efficient because incremental use is aligned with incremental value.

Some key points for pricing

- How will new long-term service work?
  - Pricing Work Group and TSLG expect that new long-term transmission rights will be injection-withdrawal rights (IWRs) (same as for short-term)
  - New long-term IWRs will be obtained through a queuing process, not by auction
  - Most parties expect that, in general, upgrades or expansions will be required to issue new long-term IWRs

Some key points for pricing

- What will parties pay for long-term IWRs from expansion?
  - If we follow the principle that incremental use should be aligned with incremental value, then new long-term rights from expansion should be tied to funding the necessary expansion, but should also reflect the value of the existing system that supports them (not pay less than embedded cost)

Some key points for pricing

- What will parties pay for long-term IWRs from existing capacity?
  - If the same principles apply to pricing IWRs from existing capacity and IWRs from expansion, it would seem appropriate to require a contribution to embedded costs when parties request long-term rights that use existing system capacity

Some key points for pricing

- Consistency among varieties of long-term transmission rights:
  - Remember also that, under the principle that all pre-existing transmission rights and obligations must be honored, those who wish to maintain their pre-existing long-term transmission rights will have to continue to pay for them

Some key points for pricing

- Some additional considerations:
  - If some pre-existing long-term contracts expire, existing capacity (previously committed to serve those contracts) should become available for new long-term rights
  - Long-term revenues associated with expiring contracts should be considered too

Some key points for pricing

- Summary of key challenges for new long-term service:
  - New long-term rights may often be multi-system in character
  - Parties other than loads will need to obtain and pay for new long-term rights
  - Need for consistent pricing of long-term rights from:
    - "spare" capacity available on the system Day 1
    - capacity from expiring long-term contracts
    - capacity created through upgrades or expansion

An Illustrative Example:

- Physical rights compared to "accept all schedules" – how would this make a difference for export transactions?
  - Anyone who wants to carry out an export transaction will need one of three things:
    - Pre-existing long-term rights to the export point
    - Short-term rights (IWRs obtained through RCS) to the export point
    - New long-term rights (IWRs), obtained from Grid West with applicable embedded or incremental cost pricing, to the export point

An Illustrative Example:

- Physical rights compared to “accept all schedules” – how would this make a difference for export transactions?
  - Because anyone wishing to carry out an export transaction will need to have and pay for physical rights (new or pre-existing) to schedule the transaction, export transactions will contribute to embedded system costs
  - A specific, separate charge for exports is not necessary

An Issue for the Grid West Operational Bylaws:

- The provisions in the Grid West Operational Bylaws that protect against unsupported changes in rate structure may not be an optimal fit for a Grid West market design with physical scheduling rights.

An Issue for the Grid West Operational Bylaws:

Excerpt from Grid West Operational Bylaws Section 7.16.3:

7.16.3 Departure from Company Rate Approach. **When the Corporation begins offering services, loads will pay a "company rate" (and applicable grid management fees, if any) for transmission access under a rate structure known as the "company rate approach**." "Transmission access" means

(i) continuing provision of preexisting transmission service (on terms and conditions established under preexisting agreements and obligations); and

(ii) the delivery of power to withdrawal points on the transmission system over which the Corporation offers services on terms and conditions (including any additional charges) specified by the Corporation.

For purposes of this Section 7.16, a **"departure from using the company rate approach"** means establishing a rate structure for transmission access that differs from the initial company rate approach by

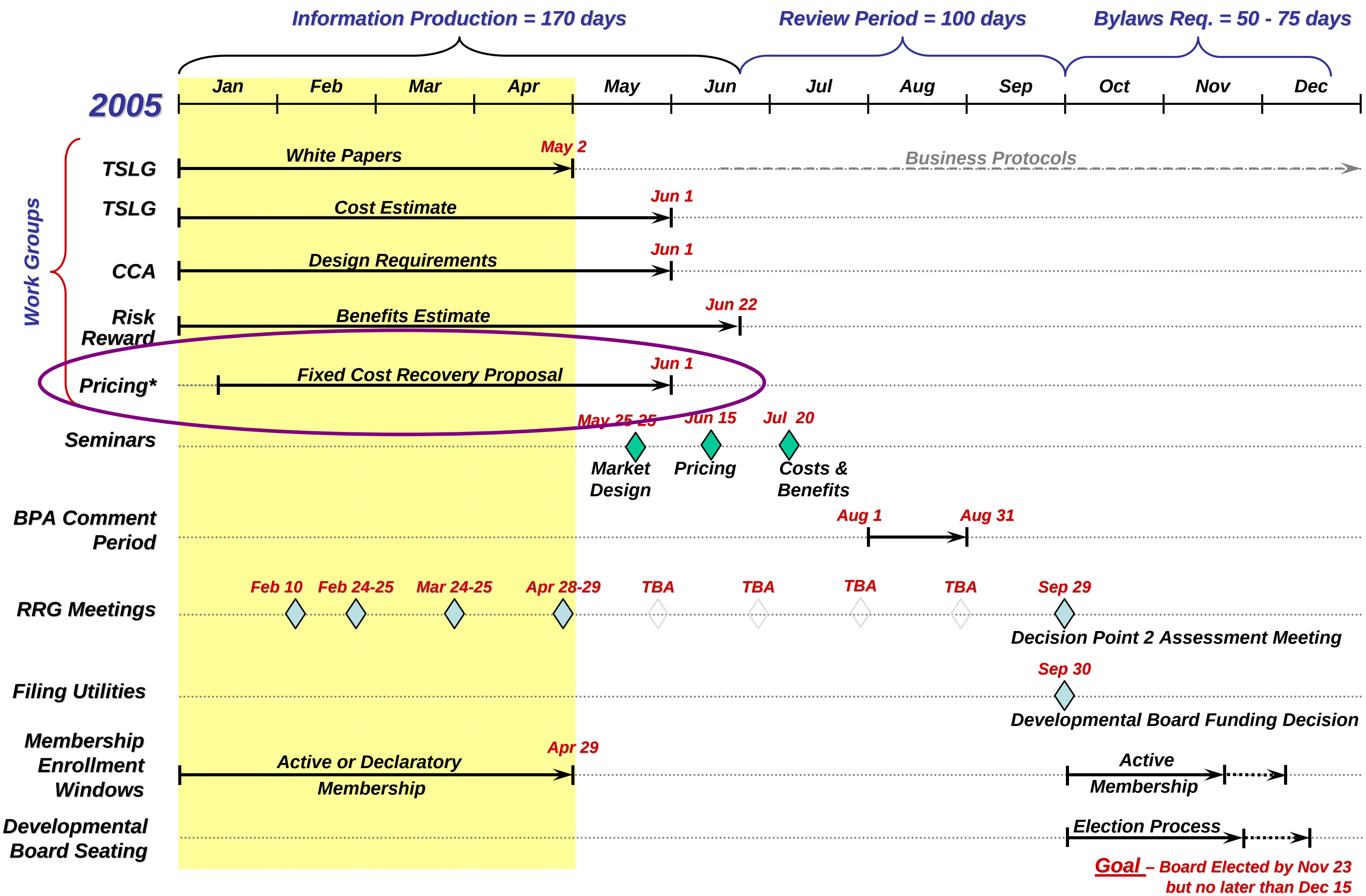
(a) **utilizing a** rate **structure other than a license plate rate**; or

(b) using a **rate structure** for transmission access **derived from the costs of facilities of a participating transmission owner other than the participating transmission owner of the facilities from which the delivered power is withdrawn** (unless a particular load is already paying for transmission service based on the costs of facilities other than those from which delivered power is withdrawn pursuant to a preexisting agreement, such as a General Transfer Agreement). . . .

This is not a new issue . . .

- FERC is currently looking at how to price long-term transmission rights
- The Pricing Work Group will stay informed about FERC efforts and any constructive approaches that might emerge from the FERC process

Timelines for Developmental Board Seating



RRG Meeting April 28 and 29, 2005

Confirmation of Scope

- The 2005 Work Plan calls for the Pricing Work Group to develop a "fixed cost recovery proposal"
- This means addressing:
  - Payment for pre-existing long-term rights (maintained according to pre-existing terms)
  - Prices for new long-term rights (from existing capacity and new capacity)
  - "Lost" revenues
- What about Grid Management Charge?

Questions?

Comments?

Suggestions?