

An Approach to Fixed Cost Recovery

The regional proposal anticipates effective “de-pancaking” of the regional transmission system in two respects. The first sense in which de-pancaking occurs is that requests for transmission service are received and processed by the Independent Entity to eliminate the need for multiple submissions to individual transmitters. The second form of de-pancaking is the elimination of fixed-cost-based, volumetric charges for short-term transactions. In the beginning state, the Independent Entity sets up a short-term inc/dec redispatch market that establishes prices from voluntary inc/dec bids. In this market, the charge for the inherent use of transmission to enable redispatch transactions is based on the value of the transmission system to the market rather than on an administratively determined share of fixed (*i.e.*, sunk) costs.

The elimination of volumetric fixed cost charges for long-term transactions requires addressing fixed cost recovery on a comprehensive basis. The regional proposal accomplishes this by adopting what is called the “Company Rate approach” for the collection of fixed costs. The Company Rate approach as the term is used here encompasses more than just the “license plate” rate that was used for new and converted service under the RTO West Stage 2 proposal. While the implementation for the regional proposal would be similar to that of the Stage 2 proposal, there is a key difference: the shift to financial rights with contract conversion does not occur in the beginning state. (See Appendix C for description of revenue flows under the RTO West Stage 2 Company Rates approach.)

Because none of the pre-existing contracts are converted to financial rights in the beginning state, all the revenues arising from pre-existing transmission arrangements will continue to flow to the transmission provider as they have in the past. These sources will constitute the bulk of the revenues used to cover transmission owners’ fixed costs. The differences from the RTO West Stage 2 proposal will occur in the portion of the revenue which would flow through a Paying Agent, established to address tax and bonding issues. In the beginning state of the regional proposal the differences from the Stage 2 proposal are:

- (1) The surplus from the day-ahead inc/dec redispatch market and the medium-term transmission right market can take the place of the surplus from congestion management in Stage 2; and
- (2) There are no revenues from contracts converted to a formal Company Rate as they would have been in Stage 2.

The revenues from “External Interface” fees are unchanged from Stage 2.

Because there are no converted contracts in the beginning state, there is no need to formally calculate the “Company Rate” at the outset, although the “Company Rate approach” is applied. Until financial rights are adopted in the advanced target state, conversion of contracts will not occur. However, in the advanced target state, the Company Rate or the appropriate

Transfer Charge will be applied to voluntarily converted contracts. While this describes the general concept, there remain a number of questions to be considered in future detailed work.

From pages 13 – 14 of December 24, 2003 “Regional Proposal”

As noted in the introduction to this paper, the Platform Group has proposed other governance elements (beyond those provided in the Stage 2 Bylaws) to strengthen regional accountability with respect to specific future decisions the Board might make that fundamentally change the scope of the Independent Entity’s activities. The Platform Group refers to these decisions as the “Special Issues List.” The items on the Special Issues List (each of which will be described in more detail below) are:

- (1) Authorization to exercise “backstop” measures with respect to “chronic, significant, commercial congestion”;
- (2) Departure from using the Company Rate approach to recover fixed costs of transmission service;
- (3) Authorization for the Independent Entity to convert the transmission rights of the transmission owners to financial rights and to issue new financial rights;
- (4) Authorization for the Independent Entity’s market monitor to impose penalties or actively intervene in markets; and
- (5) Authorization for the Independent Entity to adopt and enforce a loss methodology that overrides individual company loss methodologies.

If, after the Independent Entity has begun commercial operations,¹ the Board wishes to gain the authority to implement the foregoing changes in the Independent Entity’s scope of activities, there are heightened consultation and procedural requirements with which it must first comply, which are summarized below.

Excerpt from Article VII of Grid West Operational Bylaws:

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

¹ The Platform Group believes this date should be measured by the first day on which the Independent Entity accepts transmission schedules.

(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).

Before proposing for the first time a departure from using the company rate approach, the Board of Trustees must first submit a proposal to invoke authorization to depart from using the company rate approach to a vote of the MRC in accordance with the consultation, procedural, and timing requirements set forth in Sections 7.16.7 and 7.16.8(ii). If the requirements to invoke authorization to depart from using the company rate approach, as set forth Sections 7.16.7 and 7.16.8(ii), have been satisfied, the Corporation may thereafter propose a departure from using the company rate approach so long as the proposal is consistent with the scope of authorization that has been invoked by the Board of Trustees. If the Board of Trustees proposes a departure from using the company rate approach that is not within the scope of authorization that has been invoked by the Board of Trustees, the Board of Trustees must comply with the consultation, procedural, and timing requirements set forth in Sections 7.16.7 and 7.16.8(ii) to invoke any necessary additional authorization before proceeding. The provisions of Section 7.16 shall not apply to rates or rate structures for grid management or other services offered by the Corporation that are purchased separately from or in addition to transmission access. In addition, the provisions of Section 7.16 shall not apply to any costs allocated by the Corporation as a result of exercising any “backstop authority” even if such costs would be incorporated into a company rate.