

Generation Interconnection: Transmission Credits



Purpose of Discussion

- *Explore potential alternatives to address issues associated with generator interconnection transmission credits.*

Context

- BPA is holding a large transmission credit balance that is forecast to increase as more generator connections are constructed.
- Transmission credits and other payments are the result of customers advance funding network upgrades necessary to interconnect to the system under Large Generator Interconnection Agreements (LGIA).
- BPA applies credits against customers transmission service charges or makes cash payments based on capacity until the balance is exhausted.
- BPA makes a lump sum “balloon payment” for the remaining balance if it is not exhausted in 20 years.
- Transmission credits and cash payments have cash effects that increase rate pressure.

Issues

- 1) How do we determine which costs associated with Generation Interconnections are directly assigned and which are considered Network Upgrades eligible for credits?
- 2) How should BPA repay credits for advance funding for Network Upgrades?

Objectives

- Create a method of funding Large Generation Interconnection Projects that encourages effective integration of resources through sustainable, long-term, collaborative integration solutions while ensuring reliability, equitable cost and risk allocation, and meeting legal obligations.
- Preserve borrowing authority.
- Minimize upward rate pressure.

Projected Transmission Balances

- As of September 2011 BPA held approximately \$288 million dollars that customers have advance funded for generation interconnections and COI upgrades including accrued interest.
- Of that balance, \$274 million has been used to construct transmission facilities and will be repaid in credits or cash payments. An additional \$14 million has been deposited for projects which are not yet underway and could potentially be eligible for credits or cash payments.
- Approximately \$155 million in additional advances for Network Upgrades is forecast to be deposited before the end of FY 2015.

Projected Transmission Credit Repayment

- The current LGIA forecast, which is aligned with most up to date wind forecast (11/2/2011), estimates that BPA repayments in the next 17 years (FY 2012 – FY 2028) will total \$717 million (this includes credits and cash payments paid on principal and on interest).
 - Of the total, \$270 million reflects interest that the credit balances will accrue.
 - Of the total, \$11 million is expected to be repaid via balloon payments after 20 years.

Alternatives for Direct Assignment Policy

Alternatives Not Requiring Tariff Modifications

- **Alternative # 1 – Status Quo.** BPA maintains its current network treatment and direct assignment policy.
- **Alternative # 2 – Use FERC’s “at or beyond” test to directly assign larger portions of the interconnection project.** Consider whether BPA would be able to directly assign greater portions of projects under FERC’s “at or beyond” test. This would reduce the portions of projects that qualify as network upgrades, which would reduce the amounts of advance funding for which BPA would provide transmission credits.

Alternatives Requiring Tariff Modifications:

- **Alternative # 3 – Repay only a portion of network upgrade costs associated with the interconnection project.** Reimburse customers for less than 100% of the currently defined network upgrade costs.

Alternatives for Funding Network Upgrades

Alternatives Requiring Tariff Modifications

- **Alternative # 4 – Pro-rata cost allocation repaid through credits.** When multiple customers are requesting interconnection at the same point, regardless of their queue position and requested interconnection date, allocate the network upgrade costs between interconnection customers on a pro-rata basis based on their share of interconnected capacity.
- **Alternative # 5 – Change the interest rate applicable to LGIA credits.**
 1. Base interest on a lower rate.
 2. Do not pay interest on customer deposits or credit balances.
 3. Stop applying interest after a certain amount of time (e.g. after 20 years).

Alternatives for Funding Network Upgrades

Alternatives Requiring Tariff Modifications

- **Alternative # 6 – Provide transmission credits until deposit balance is exhausted.** Remove the 20-year deadline for repayment. Customers receive transmission credits for funds advanced for network upgrades until the balance is exhausted.
- **Alternative # 7 – Keep the remaining credit balance after 20 years of credit payments.** Customers would receive credits for the funds advanced for Network Upgrades for the first 20 years of service. At that time BPA will cease making payments and keep the remaining balance.
- **Alternative # 8 – Make additional products eligible for transmission credits.** Scheduling, System Control and Dispatch (SCD) is another product that could be eligible to receive credits.

Appendix

Forecast of Interconnection Credit and Cash Repayment

