

Certainty of Recovery of Transmission Costsⁱ

Background

The Southwest Power Pool (SPP) is currently considering a process for exploring funding options for transmission upgrades. The Federal Energy Regulatory Commission (FERC) in its February 10, 2004 Order in SPP's Regional Transmission Organization (RTO) application requires the development and filing of a transmission cost allocation plan by the end of 2004. This plan must also address certain pricing issues for transmission plan projects and regional cost allocations for all stakeholders involved in the process. Further, the Order grants the Regional State Committee (RSC) as having "...primary responsibility for determining regional proposals and the transition process." This responsibility extends to participant issues, rate design, transmission rights, and any rights transition process.

The Issue Today

Under today's paradigm, transmission investment occurs either when a third-party requestor pays for expansions or when the transmission owner makes an investment in new transmission facilities and seeks recovery from its various customers through contractual or ratemaking processes. As this new regional approach and policy is further pursued, all stakeholder interests and requirements must be taken into consideration by the boards of directors of the RSC and SPP. These requirements are diverse among the SPP members in terms of regional transmission usage, ownership, and state regulatory jurisdiction(s).

The Issue Tomorrow

Currently there is a proposal being considered by the RSC whereby the Transmission Owners (TO) within SPP will pay an allocated portion of transmission system upgrade costs based on set percentages. As a result, TOs are likely to be financially supporting transmission facilities in which neither they nor their stakeholders have any facilities to add to their rate base or investment interests. Further, these facilities may be located on the grid far away from where the TO owns and operates a system for the transport of electricity to their contractual and/or franchised customers. The state regulated TOs are concerned about the RSC and SPP respective boards of directors endorsing a transmission expansion plan that does not adequately address the

regulatory issue of cost recovery for the TOs allocated portion of facility costs, which are remote from their home state(s) customer base. There is no assurance, similar to the historical method for determining recovery of control area transmission costs, that state jurisdictions would accept dollar-for-dollar responsibility for cost recovery of transmission investment made outside of the jurisdiction of the regulatory body. However in order to encourage transmission expansion, those who are asked or required to fund transmission projects or receive an allocation of costs not directly related to the jurisdictional area must have confidence in receiving support for full and timely recovery. Continued doubt in the recovery of transmission costs that do not directly relate to a cost of service for native load customers, and could later be challenged as not being prudent or used and useful, will not lead to increased transmission expansion in the SPP, but rather increased regulatory proceedings and delays.

The Issue is Wholesale and Retail

This is more than just a wholesale electric service issue. It is true that transmission upgrade costs will become part of the SPP Open Access Transmission Tariff (OATT). Each party within SPP selling transmission services will collect transmission revenues for wholesale electric service under the terms, conditions, and prices established in the OATT. The recovery of and on investments, including upgrades, will be part of the price structure and must be part of a regional transmission expansion plan for that plan to be equitable and effective. However for state regulated rates, the question becomes whether or not the state regulators would pass through these costs to the retail customer. Regulated retail customers are a significant user of the regional transmission grid. Without some sort of assurance of the general acceptance of the practice of passing through the appropriate SPP transmission charges (with the appropriate review by staff), the state regulated utilities could be left with allocated wholesale costs for transmission service from SPP with no way to recover the costs, and thus be faced with a potential displacement of other legitimate expenses to offset the allocated wholesale transmission costs. Without this assurance of timely and fair treatment, uncertainty of full transmission cost recovery will be a problem for all state regulated utilities when dealing with the financial community.

Summary

Cost recovery for transmission investment benefiting customers within one state when that investment is made in a different jurisdiction by a different owner is new ground and must be well thought out in sufficient detail in order to be implemented. For the most part, the majority of the SPP transmission owners are single state or multi-state jurisdictional utilities and the transmission dependent members are not state jurisdictional for their retail energy prices – this state regulatory risk “imbalance” among stakeholders is a significant reality and consideration that should be recognized and addressed within the SPP regional transmission cost allocation and pricing plan. Providing more certainty of recovery of allocated costs for transmission facilities through state regulatory processes would eliminate a significant deterrent to making new transmission investment today. This must be considered a critical success factor for the regional expansion of the SPP transmission system in the future.

We respectfully request formal recognition by the RSC that this is a highly significant issue. Further, we ask that the RSC recommend each state within the SPP footprint give opportune consideration to resolving the issue of transmission expansion cost recovery for their jurisdictional utilities.ⁱⁱ

ⁱ This Certainty of Recovery of Transmission Costs issue paper is independent of any other position of the state regulatory jurisdictional transmission owners (defined below) on other issues regarding the funding of transmission upgrades on the assumption that status quo is not the end state.

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