

# Transmission Cost Allocation Principles for the Western States

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# ■ TREG Assignment

- Transmission Regulatory Principles work group (TREG) formed at Fall 2004 CREPC meeting to follow-up on RMATS Phase I report recommendations
  - Address transmission project cost allocation and recovery uncertainties
  - Explore idea of MOA among states and FERC on “pricing” principles

# TREG Two Track Effort

- Educate ourselves and find common ground
  - Investigate state cost recovery processes to determine common practices
  - Research actual cases to understand basis for transmission cost recovery decisions and understand challenges of multi-state transmission projects
- Research cost allocation principles for potential state/federal MOA

# ■ TREG Results to Date

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- Draft Working Paper
- Characterization of Transmission Project Cost Types for Application of Principles
- Draft Cost Allocation Principles
- Suggestions for Regional Coordination



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# ■ TREG Draft Report

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- Case Studies
  - And lessons learned
- Cost Types
- Principles
  - Planning Criteria or Meta-principle
  - Allocation Criteria

# Some observations from case studies

- Multi-state lines have been built without state involvement in cost allocations
- Voluntary allocations have been accepted by states
- Zero-sum battles are settled in court or FERC
- ISO-NE allocation method is troublesome
- Committed generation and markets, rather than planning, drive transmission investment
- There may be value in defining under what conditions and principles, and for what project types, states will consider allocation guidelines

# ■ Cost Types

- Type 1: Costs related to serving native retail load
- Type 2: Costs related to sale/purchase of wholesale transmission
- Type 3: Costs incurred for transmission alternatives to defer or displace Type 1 costs

# ■ Planning Principle

- Projects should meet an overall “efficiency” requirement
  - Project proponents responsible for meeting jurisdictional resource objectives
    - Projects evaluated against alternatives including evaluation of “non-transmission” options
  - A “meta principle”
  - Projects should meet efficiency criteria in the planning phase
- Cost allocation principles should support efficient planning and development

# Recommended Cost Allocation Principles

- Principle 1: Equity
  - Cost causers should pay
  - Beneficiaries should pay costs consistent with benefits received
- Principle 2: Efficiency
  - Cost allocation should not distort resource selection in the planning stage
- Principle 3: Allocations should allow reasonable opportunity for cost recovery
- Principle 4: Allocations should be based on distribution of benefits

# ■ Principles, cont'd

- Principle 5: Costs for specific customer upgrades should be allocated to owner/customer(s)
  - Project should do no harm to the system
- Principle 6: Owner of merchant transmission should look to its customers for costs recovery
  - Generally expect these costs to be subject to FERC jurisdiction

# Regulatory Landscape: Enhancing Investment Certainty

- Planning and cost allocation guidelines help mitigate risk of Multi-state transmission investment
- Regional cooperation to coordinate project evaluation
  - Could help to determine specific costs and benefits of a particular project
- Regional coordination of state requirements and processes facilitates investment decisions

# Elements of a Regional Solution on Cost Allocation

- Develop a process to informally coordinate individual integrated resource plans
  - Better informs resource decisions
  - RMAATS illustrates a regional coordination effort
- Establish regional cost allocation principles
  - This supports development of economically efficient energy projects on a state and regional basis
  - RMAATS identified regional transmission options but noted lack of regional principles