



Northern Tier Transmission Group

Cost Allocation Principles and Practice

presentation to the
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An excellent starting premise for cost allocation. . .

“It has no claim to an exact science.”

Colorado Interstate Gas Co. v. FPC, 324 U.S. 581, 589 (1945).



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Why we think we comply with Order 890.

- I will discuss:
- New types of projects and their costs
- NTTG cost allocation principles
- the Cost Allocation Committee



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Some basic principles of the process as outlined in Order 890 (¶559)

- allow regional flexibility
- costs fairly assigned to cost causes and beneficiaries
 - “a proposal that allocates costs fairly to participants who benefit from them is more likely to support new investment than one that does not” (¶ 560)
- give adequate incentives to build new transmission
 - “a cost allocation proposal that has broad support across a region is more likely to provide adequate incentives to construct new infrastructure than one that does not” (¶560)
- supported by state authorities and participants in the region



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FERC observations on Projects

- not modifying existing mechanisms to allocate costs for projects constructed by a single transmission owner and billed under existing rate structures
- not to upset existing cost allocation methods applicable to specific requests for interconnection or transmission service under the *pro forma* OATT
- intended to apply to projects that do not fit under the existing structure, such as regional projects involving several transmission owners or economic projects that are identified through the study process, rather than through individual requests for service



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And so . . .

- NTTG encourages coordinated planning in its sub-region but also throughout the Western Interconnection
- and coordination of IRPs for better understanding of need
- better planning -- more efficient projects
 - this may bring different needs together into single projects
 - “simple” projects may join “complex” ones
 - e.g., LSEs and merchant transmission developers may be brought together



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Therefore, NTTG takes notice of all types of projects

- NTTG principles designed to work with complex projects and differing needs
- designed to generate recommendations on economic *and* reliability projects
- principles which apply to only a few types of projects wouldn't suffice
- “less than all” viewpoint supports older paradigm
 - “I'll build for my own needs”
- new paradigm -- plan and build efficiently and realistically



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Therefore we focus on **cost types**:

Type 1 costs related to retail service to the transmission owner's native retail load:

- **Type 1-A:** single LSE/single state
- **Type 1-B:** single LSE/more than one state
- **Type 1-C:** more than one LSE/single state
- **Type 1-D:** more than one LSE/more than one state
- **Type 1-E:** LSE costs to provide service, lower cost, or increase quality of service for a specific retail customer or specifically identifiable group of retail customers.



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Type 2 costs are related to the sale or purchase of power at wholesale not directly for the benefit of native load, or on behalf of or at the request of a wholesale generator or a wholesale transmission customer:

- They will most likely be FERC-jurisdictional and not subject to state review. However, the actual transmission project associated with these costs might also involve Type 1 costs that a state or states may allocate to retail rate payers.
- Either the utility shareholders (“97% allocated”) or the utility customers (“103% allocated”) bear the risk of differences in FERC and state cost recovery decisions. The NTTG approach is designed to minimize the possibility of incomplete allocation of appropriate project costs.



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Type 3 costs are those incurred specifically as alternatives to (or deferrals of) transmission line costs (typically Type 1).

- Examples include the installation of distributed resources (including distributed generation, load management and energy efficiency).
- Type 3 costs do not include demand-side projects which *do not have* the effect of deferring or displacing Type 1 costs.



NTTG Cost Allocation Principles

Our Cost Allocation Principles

- are the *actual consensus of Cost Allocation Working Group* (state regulators from Idaho, Montana, Oregon, Utah and Wyoming, consumer advocates, cooperative entities and IOUs)
- are not mathematically automatic
- encourage developers to think seriously about cost allocation
- encourage developers to begin thinking early about costs and cost recovery issues



NTTG Cost Allocation Principles

Principle 1.

“As a matter of equity, cost allocations will reflect the classic principles that ‘cost causers should be cost bearers’ and that ‘beneficiaries should pay’ in amounts that are reflective of the benefits received.”



NTTG Cost Allocation Principles

Principle 2.

“Projects brought forward for consideration will be shown not to be in conflict with state and federal IRP, Competitive Bidding, RPS, siting, certification and other policy and planning requirements affecting transmission development, to the extent they are applicable to the project.”



NTTG Cost Allocation Principles

Principle 3.

“Cost allocations will result in a reasonable opportunity for the transmission owner(s) to achieve full recovery of the costs of the project, but no more.”

Principle 3a.

“Transmission project costs should be directly assigned to a single transmission customer or allocated to multiple transmission customers or areas (or the entire region) based upon the distribution of benefits.”



NTTG Cost Allocation Principles

Principle 3b.

“Upgrades and other projects proposed on the basis of economic or other benefits for specific transmission customers will be accommodated if [i] the customers and/or transmission owner accept responsibility for the associated costs; [ii] the project does no harm to the network; and [iii] the project otherwise has no adverse impact on regional transmission service.”



NTTG Cost Allocation Principles

Principle 4.

“For Type 2 project costs, the rest of the network and its customers will be held harmless and the transmission owner should look to its transmission customers for direct recovery of costs.”



NTTG Cost Allocation Principles

Read the principles and related explanatory material on the web at:

http://nttq.biz/site/index.php?option=com_docman&task=doc_download&gid=193&Itemid=31

but it is easier just to remember

<http://nttg.biz/>



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Western Interconnection realities we faced in forming the Cost Allocation Committee:

- long lines from production to consumption areas
- independent-minded regulators and utilities
- a long recognized need to cooperate to solve stability and reliability problems
- a long history of creating organizations to meet the needs of the West, e.g.
 - WIEB, WECC, CREPC, NWPP and now NTTG
- NTTG is not a truly accurate fit with the RTO concept



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Order 890 calls for involvement of state regulators

We're involved . . . and NTTG is unique in the degree to which the call for involvement is answered

Regulatory Members

Idaho Public Utilities Commission
Oregon Public Utility Commission
Utah Public Service Commission
Montana Public Service Commission
Montana Consumer Counsel
Wyoming Public Service Commission

Industry Members

Deseret Power Electric Cooperative
Idaho Power Company
NorthWestern Energy
PacifiCorp
Utah Associated Municipal Power Systems

All members have a seat *and* a vote on the Steering Committee, co-chaired by:

**Commissioner Marsha Smith - Idaho Public Utilities Commission
John Cupparo - Vice President of Transmission, PacifiCorp**



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Cost Allocation Committee

Composition

- **Each regulatory commission, state consumer agency and publicly-owned or consumer-owned entity has one voting seat each.**
- **Members: Idaho, Montana, Oregon, Utah, and Wyoming Commissions, Montana Consumer Counsel, UAMPS and Deseret Power**
 - IOUs cannot be members
 - Commissioners cannot be members
- **Members are selected by their respective Commissions or other entities.**
- **Members elect a chair from their number.**



Northern Tier Transmission Group Cost Allocation Committee Process

- process is open, noticed and public but protects confidential information
- strong *ex parte* rule
- strives for consensus recommendations, but may act by majority vote
 - Minority positions are documented and forwarded
- CAC applies Cost Allocation Principles to projects and plans produced by the NTTG Planning Committee.
- Early in planning process, CAC makes preliminary and iterative analyses of the allocation of costs and benefits.
- Prepares written recommendations on cost/benefit allocations as part of the plan reports to Steering Committee.



Northern Tier Transmission Group Cost Allocation Committee

What's the Value?

- **forces developers to think about costs early in the process**
 - project developers must submit project data package for analysis
 - Package must include developers' cost allocation proposals
- **early identification of allocation issues**
- **opportunity to discuss and refine during iterative process**
- **invites developers of transmission for renewables to join process**
- **view of what regulators actually think**
- **produces view of disposition of all costs**
- **forum for nonjurisdictional entities to discuss cost recovery**
- **not 100% certainty**
 - each state retains jurisdictional prerogatives
- **but provides a level of assurance not otherwise obtainable**



Northern Tier Transmission Group Cost Allocation Committee

What's the Big Deal?

- CAC is unique in the United States**
- NTTG also unique in bringing together industry, consumer groups and state regulators**
- Achievable without legislation or compacts**
- Born of a common understanding of the great need for new transmission**
- We hope CAC and NTTG will stimulate more cooperation in the Western Interconnection**



Northern Tier Transmission Group Cost Allocation Committee

What more could we ask, you ask?

Since CAC has not begun work (its charter was unanimously approved on October 1, 2007) . . .

- 1. Please let it work.**
- 2. Please judge it by its fruits. We will too.**
- 3. Let it stimulate more cooperation and coordination in the West.**

See more details in the Cost Allocation Committee's charter at <http://nttg.biz/>



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**Some useful acronyms for transmission
planners . . .**



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- **NIMBY -- Not In My Backyard**
- **NUMBY -- Not Under My Back Yard**
- **GOOMBY -- Get Out of My Back Yard**
- **BANANA -- Build Absolutely Nothing Anywhere Near Anyone**
- **NOTE -- Not Over There, Either**
- **NOPE -- Not On Planet Earth**
- **NIMEY -- Not In My Election Year**
- **CAVE -- Citizens Against Virtually Everything**



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QUESTIONS?

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