

Highway-Zone Rate Design

Abstract of A White Paper

Sponsored by TRANSLink Development Company, LLC.

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The TRANSLink Development Company has prepared a White Paper conceptually describing the transmission rate design that has been submitted to FERC in Docket No. ER03-83-000 for application under the Midwest ISO's OATT and within the TRANSLink region. The White Paper can be obtained from the TRANSLink website at www.translinktc.com.

The Highway- Zone rate design separates the rate components based on how portions of the transmission system are used. The methodology segments the transmission system, and associated revenue requirements, into a regional 'highway' system and local 'zonal' systems, and assesses charges to transactions based on their usage of these respective segments. System segmentation is based on voltage level and flow impact analyses of cross-regional transactions. The highway rate is a single, postage stamp rate obtained by pooling the costs of all zones' highway facilities that provide transfer capability above a prescribed threshold. Zonal rates are based on the non-highway facility costs within each zone. Thus, this compromise structure recovers a portion of each owner's revenue requirement through a postage stamp rate (highway) and a portion through license plate rates (zonal).

TRANSLink concurs with the Commission's SMD NOPR paragraph 200 for establishing a backstop bright line between zonal facilities and highway facilities. In regions where parties agree on criteria for delineation between zonal and regional facilities by application of a functional test, such as has been done among the TRANSLink participants, the Commission should be receptive to accepting the regional compromise. However, where a region has no Commission accepted distinction between zonal and regional facilities, the Commission's suggested delineation at 138 kV is entirely appropriate.

In the TRANSLink white paper, zonal rates are further split into supply and load zonal rates. Supply zonal rates are based on the costs of the facilities in the generation zone. New and existing generators in a zone pay the same zonal charges. Load zone rates also vary depending on the load density within a pricing zone; there are generally higher rates in zones with low load density.

The overriding objectives of the proposal are to develop a regional transmission rate design that eliminates “pancaking”, minimizes inequitable cost shifting and revenue erosion, and applies the traditional rate design principles for cost causation and matching payment to usage. The Highway-Zone rate design methodology is premised upon taking the positive attributes of both license plate and postage stamp pricing and applying them in a way that both allocates revenues based upon system usage and sends accurate price signals to the market.

Conclusion

The Highway-Zone transmission rate methodology strikes a balance between traditional rate methodologies. It promotes economic efficiency through the accurate price signals allowed by postage stamp highway rate, while maintaining a level of usage-based cost recovery through zonal rates based on local-zone embedded costs. In an effort to produce transmission pricing that adequately compensates the transmission owners for their investment and offers simple cost causation pricing to the market place, the Highway-Zone provides regulators more certainty that the capital required for installation of new infrastructure will be available when such facilities are sited and approved in the future. The white paper provides illustrative examples.