

**Rocky Mountain Area Transmission Study (“RMATS”)  
States Transmission Cost Recovery Process**  
(Draft by Becky Wilson, subject to further review and edit)

The state regulatory process governing transmission investment is comprised of planning, siting, construction, and cost recovery through retail rates.

***Planning***

In Utah and Idaho, expansion of the transmission system is considered in the Integrated Resource Planning (“IRP”) process<sup>1</sup> in the context of providing long-run, least-cost service to retail customers. In addition to the IRP process, Colorado utilities report annually to the Commission concerning planned transmission projects over the next three years. The Commission determines which projects are in the ordinary course of business and which will require the utilities to seek a Certificate of Public Convenience and Necessity (“CPCN”). Transmission planning is also coordinated with the distribution planning process and now in the voluntary, though not formally recognized, RMATS planning process. Wyoming does not have a formalized IRP process.

***Construction***

For state jurisdictional utilities, i.e., investor-owned utilities like PacifiCorp, construction of new transmission facilities located in that state requires receipt, after hearing, of a CPCN. Extension of existing facilities may not require a CPCN but does require notice if the cost is over a specified amount.

In Utah, Interlocal Entities (i.e., UAMPS) or out-of-state public agencies must also obtain a CPCN, after hearing, for new facilities located in Utah; however, if the new facilities provide additional project capacity or provide additional project capacity within the corridor of an existing transmission line, the facilities are exempt from the CPCN requirement.

Applicants for a CPCN in Utah or Idaho must show that public convenience and necessity does or will require such construction and in addition that such construction will in no way impair the public convenience and necessity of electrical consumers of that state at the present time or in the future. In Wyoming, issuance of a CPCN means that the facility is necessary for the utility to continue to provide safe, adequate and reliable service in the public interest; however, it expressly reserves rate making treatment for a future general rate case proceeding.

***Siting***

In Idaho and Utah, siting of new transmission facilities is not under state public service commission jurisdiction but rather is considered and approved by county zoning and

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<sup>1</sup> This process is also known as a least-cost planning process.

planning commissions and then by county commissions, regardless of whether the facilities are proposed by utilities or merchant developers.

### ***Cost Recovery through Retail Rates***

All transmission costs, both capital and ongoing, are considered for recovery by state public service commissions only in retail rate proceedings. Prudent transmission costs are recovered from customers in the price they pay for service. To date, we are unaware of any disallowance associated with transmission investment or expenses or imputation of wheeling revenues in the RMATS region.

Here are three ways through which prudent transmission cost can be apportioned to customers: Bundled retail cost of service; unbundled transmission service; unbundled retail and wholesale transmission service. A brief description of each follows.

### ***Cost Recovery through Bundled Retail Cost of Service***

In this approach, transmission cost of service and wholesale wheeling revenues<sup>2</sup> are combined with other cost of service functions, i.e., generation, distribution and overheads, etc., to form a single retail rate. No distinction is made between wholesale transmission cost of service and retail transmission cost of service. This is how PacifiCorp recovers its transmission costs in Utah, Idaho and Wyoming and this is also how transmission cost is recovered in Colorado.

For example, PacifiCorp reports to states its financial results and operations in the detail of the FERC's uniform system of accounts. All transmission net plant investment, expenses and wholesale wheeling revenues are included in PacifiCorp's results of operations and are apportioned among the state jurisdictions it serves. A utility's purchase of transmission service from another owner's facilities is included as a wheeling expense in its cost-of-service.

Costs in the transmission-related FERC accounts (gross plant, accumulated depreciation, wholesale wheeling revenues, operation, maintenance and depreciation expenses) are generally allocated among states served by PacifiCorp based on relative loads: 75% weight is given to relative demand based on the sum of 12 monthly coincident peaks and 25% weight is given to relative annual energy use. All states in the PacifiCorp service territory allocate new net plant investment and annual operation and maintenance expenses and firm wholesale wheeling revenues using the 75% demand, 25% energy allocation factors. Non-firm wholesale wheeling revenues are allocated based on relative annual energy use. In Colorado, transmission investment and operations and maintenance costs are allocated on a pure 12 monthly coincident peak demand.

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<sup>2</sup> Utilities collect revenues from firm and non-firm wholesale transmission customers through contracts or through their Open Access Transmission Tariffs ("OATT"), which are then credited to retail customers, just as wholesale wheeling purchases of transmission service from other utilities through contract or the OATTs are included as expenses in retail rate proceedings.

Some of the states PacifiCorp serves, including Wyoming, directly assign pre-merger (pre-1989) net plant investment to the Division in which the plant is located and then allocate the cost to the states in the Division using redefined allocation factors (based on relative loads in the Division rather than the total system) similar to those noted above. Some states, including Utah, allocate new and old net plant investment system-wide without prior direct assignment of pre-1989 net plant investment to a Division. All states allocate new net plan investment system-wide based on relative use.

Under this approach, retail customers bear the risk of any difference in wholesale transmission cost of service and firm wholesale wheeling revenue.

### ***Cost Recovery through Unbundled Transmission Service***

This approach requires separating transmission service cost from non-transmission service cost. A fully-distributed transmission service cost analysis is performed and these costs (including only non-firm wholesale wheeling revenues as credits) are used to derive a firm transmission rate based on total use (retail plus wholesale) of the transmission system. This approach is the basis for FERC wholesale wheeling tariffs (OATTs) and a similar approach is also used in Utah and Idaho for retail recovery of natural gas pipeline cost.

Under this approach, retail customers still bear the risk of any difference in wholesale transmission cost of service and firm wholesale wheeling revenue.

### ***Cost Recovery through Unbundled Retail and Wholesale Transmission Service***

This approach also requires separating transmission service cost from non-transmission service cost. A fully-distributed transmission service cost analysis is again performed but now these costs (including only non-firm wholesale wheeling revenues as credits) are allocated to firm retail and wholesale customers based on relative use. Thus, transmission service is further unbundled into retail transmission service and wholesale transmission service. A separate firm retail transmission rate is formed from the retail transmission distributed cost of service study. The retail rate is then multiplied by firm retail use to derive transmission expense and included in retail cost of service. We are unaware of any state in the RMATS footprint that uses this approach.

Under this approach, retail customers no longer bear the risk of any difference between wholesale transmission cost of service and firm wholesale wheeling revenue. This spreading of risk is an important distinction from the previous two approaches because it may be more compatible with non-utility based transmission expansion investment decisions and alternative transmission expansion funding alternatives, i.e., direct assignment or participant funding.