



GREAT PLAINS
INSTITUTE

How Two Cost Allocation Methods Satisfy (or Don't Satisfy) State Priorities

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Today's Agenda

Costs for new regional transmission must be allocated to transmission customers “roughly commensurate” with the benefits they receive.

This presentation:

- (1) Explains how to evaluate different cost allocation methods through establishing goals;**
- (2) Describes two methods of cost allocation;**
- (3) Evaluates how these two methods perform when considering five example goals.**



PRIORITIZING GOALS TO ALLOCATE COSTS OF REGIONAL LINES



Why Prioritize Goals?

Before debating what cost allocation method to select, first agree on

1. Several goals for allocating costs;
2. Priority of those goals.

Jumping straight into debating cost allocation methods could result in debating details that won't resolve your fundamental differences.

The result: you will not be able to resolve your differences.



Other Preliminary Ground Rules for Prioritizing Goals

1. Compatible Goals

- Some goals are mutually exclusive of other goals
- Ensure you have compatible goals

2. Prioritize Goals

- Because you may not be able to achieve all desired goals, either prioritize all goals or identify the top one or two goals as your priority

3. Not Too Many Priorities

- Too many priorities means nothing is prioritized.

Five Example Goals that will be Discussed Today

1. Ensure the right load pays (minimize free riding)
2. Reflect changes over time for the full life of the asset
3. Calculate with precision the savings received by each state
4. Administrative ease
5. Simple to understand and to explain

Questions to Ask Yourself:

- a. Are any of these goals mutually exclusive? If so which ones?
- b. What goal(s) would you select as your top priority?

TWO COST ALLOCATION METHODS FOR TODAY'S DISCUSSION

1. Granular Method Based on Metrics
2. Usage Rate Method



Granular Method Based on Metrics

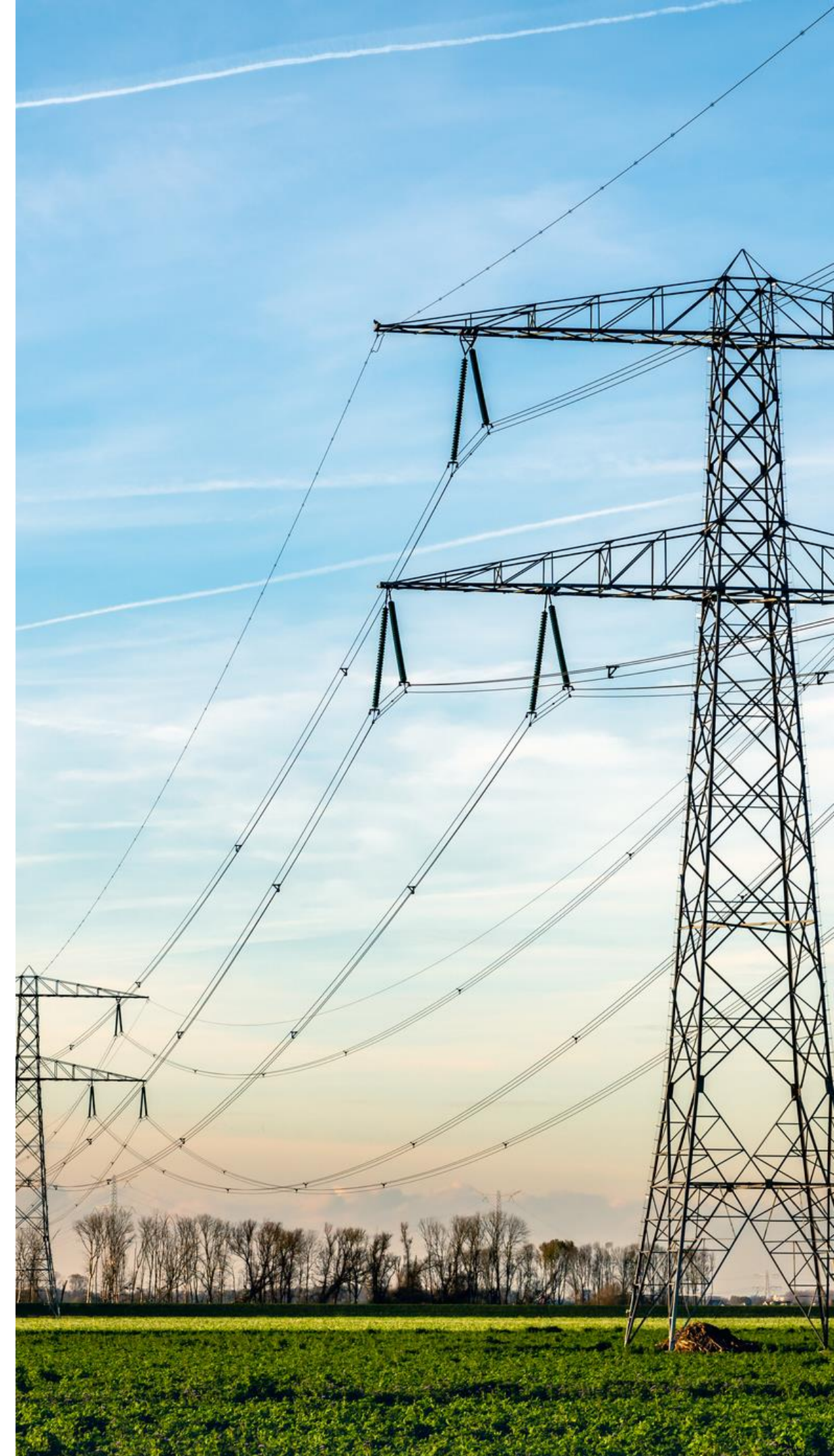
The Method: Estimate the future savings received by beneficiaries through computer modeling of specific metrics.

How often are the Savings Estimated?: Usually only once at the time of project selection. The allocation is, therefore, usually frozen forever based on this one-time estimate called a “snap-shot”.

Time Horizon for the Calculations: Usually the first 20 years of the asset life.

Geographic Granularity of the Benefit Calculations: differs for each metric. Some can be calculated down to the LSE and others only regionally.

What Metrics are used for Cost Allocation? The metric must be able to estimate savings.

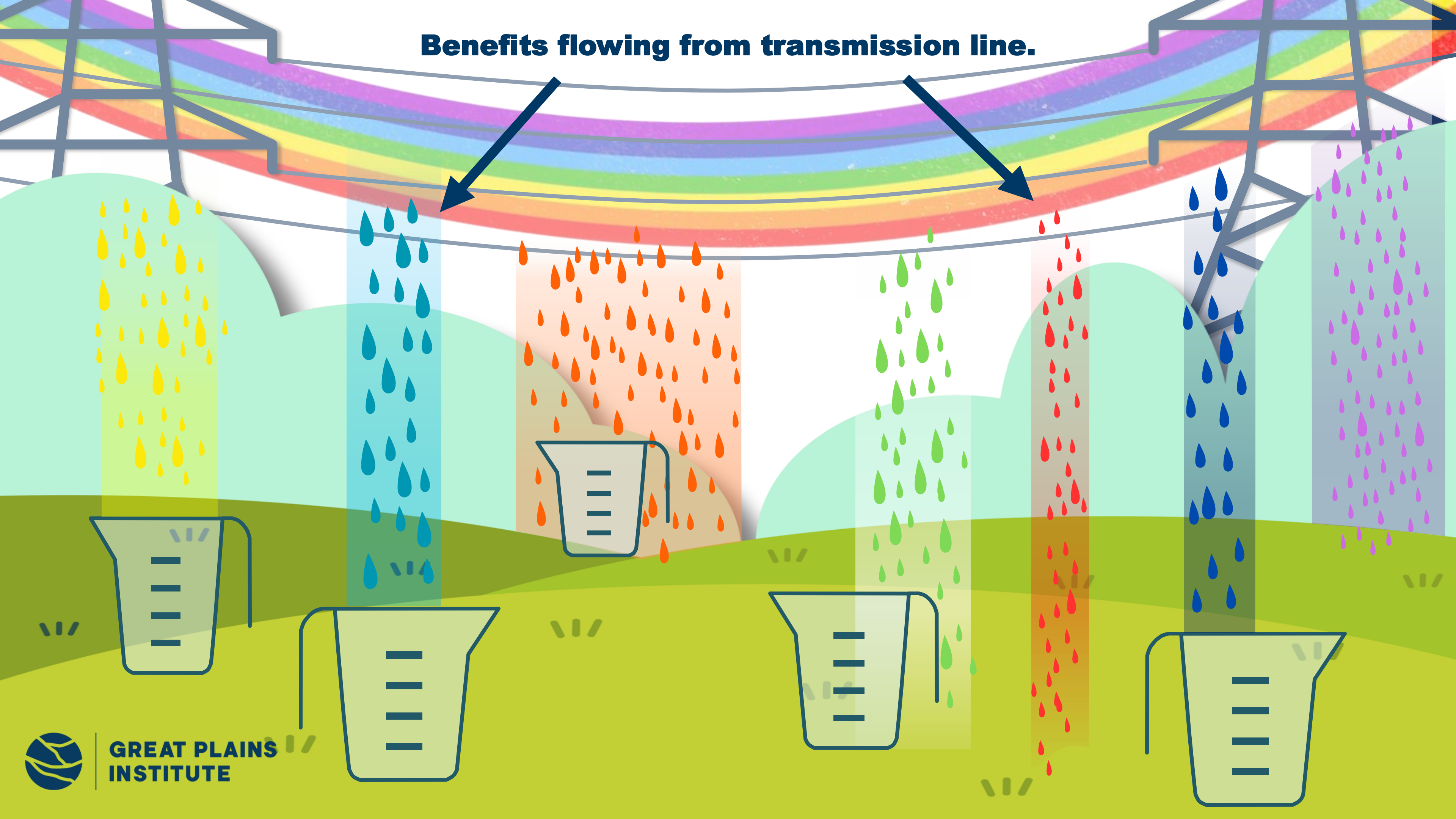


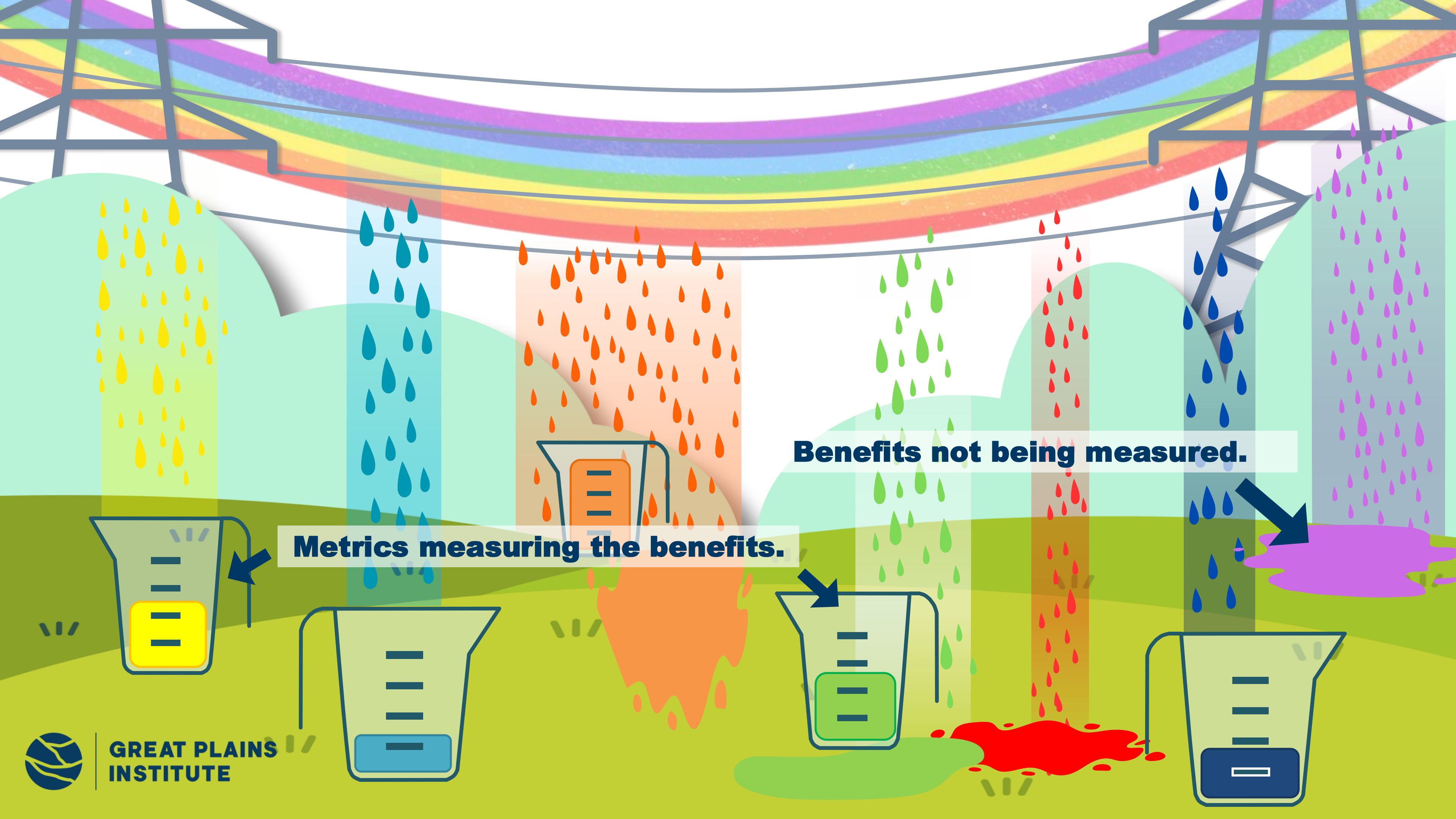
Benefit Metrics in Order 1920

#	Order 1920 Benefit Metric Description	Paragraph
1	Avoided or Deferred Reliability Transmission Facilities and Aging Transmission Infrastructure Replacement	¶ 745
2(a)	Reduced Loss of Load Probability	¶ 756
2(b)	Reduced Planning Reserve Margin	¶ 758
3	Production Cost Savings	¶ 767
4	Reduced Transmission Energy Losses	¶ 781
5	Reduced Congestion Due to Transmission Outages	¶ 788
6	Mitigation of Extreme Weather Events and Unexpected System Conditions	¶ 800
7	Capacity Cost Benefits from Reduced Peak Energy Losses	¶ 817



Benefits flowing from transmission line.



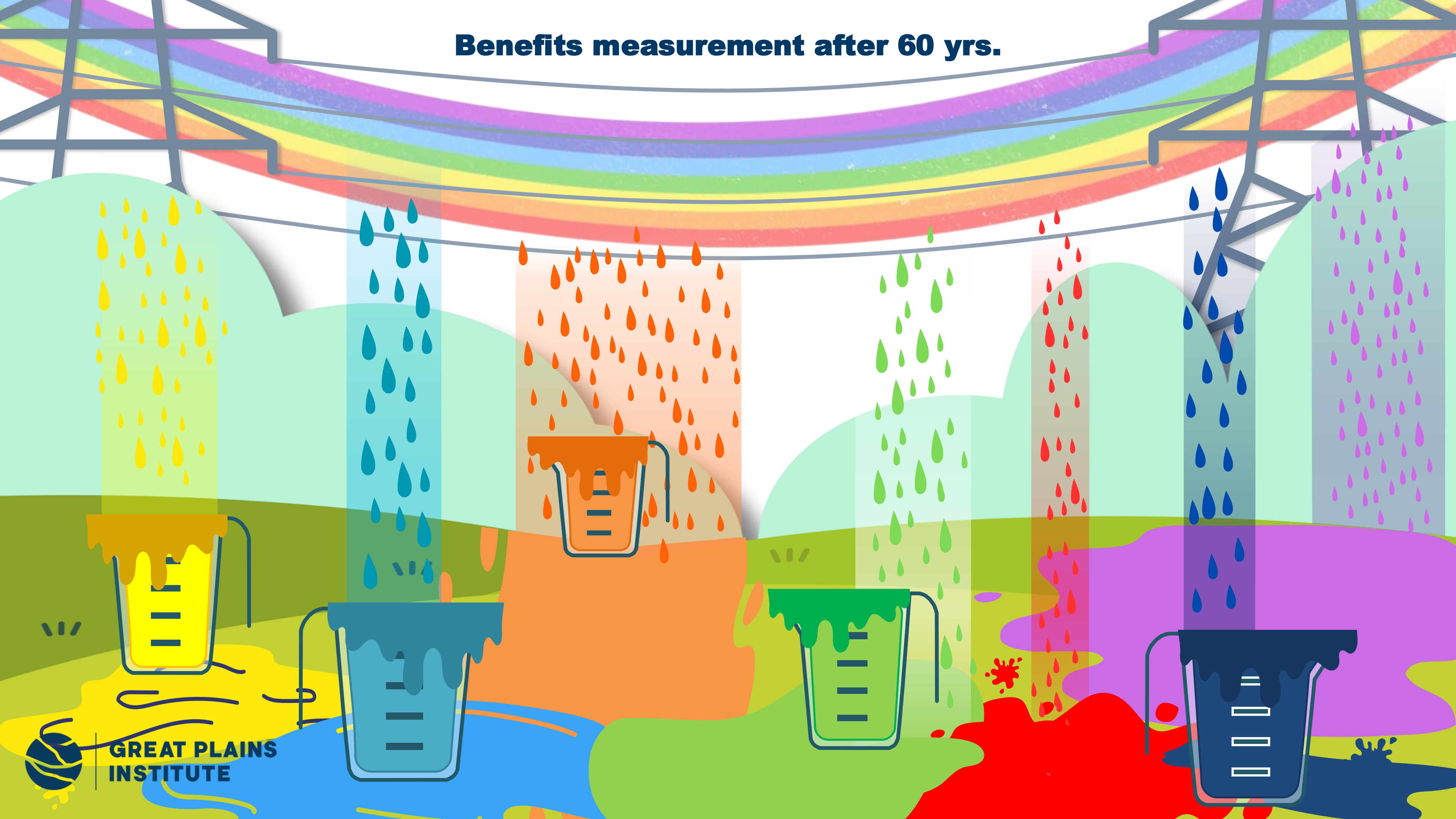


Metrics measuring the benefits.

Benefits not being measured.



Benefits measurement after 60 yrs.



Usage Rate Method

The Method: Costs are allocated based on the actual usage of the grid calculated by either volume of energy (MWh) withdrawn or demand (MW).

Time Horizon for the Usage Calculations: Actual usage is recalculated on a regular basis during the life of asset, e.g., MISO calculates annually.

Geographic Granularity of the Usage Calculations: the volume of usage is usually calculated down to the service territory of each transmission owner (TO).



Methods are Fundamentally Different

Granular Method: projected savings over the first 20 years calculated by computer models using a handful of metrics. The estimates are completed only once when the line is approved.

- Costs are allocated (rates set) based on a snap-shot projection of savings for 20 years.

Usage Rate: measures the actual usage of the grid over the life of the asset.

- Costs are allocated and reallocated (rates are set and reset) based on how much each TO uses the regional grid.



DISCUSSION: EVALUATE POLICY GOALS



Ensure the Right Load Pays (Minimize Free Riding)

Granular Based on Metrics

- No guarantee that the right load will be paying.
- The savings are only projected once based on a 20-year snapshot.
- Whether the right load is paying will be unknown for the asset's life.

Usage Rate

- Yes, a usage rate minimizes free riding.
- The costs are re-allocated regularly based on actual usage of the grid.
- This method minimizes the likelihood of free riders and helps to ensure the right load pays.



Reflect Changes Over Time for the Life of the Asset

The amount of savings and who are receiving those savings changes second-to-second based on the flows over the grid:

- As generation is added, removed or temporarily goes offline...
- As load is added, removed or temporarily goes offline...
- As transmission is added, removed or temporarily goes offline...

...the flow, the beneficiaries & the savings all change.

These changes happens second-to second over the 60-80 year life of the line/portfolio.

Granular Based on Metrics

- No, the granular method does not reflect changes over time.
- The allocation is solely based on one estimate of savings calculated when project is selected.

Usage Rate

- Yes, a usage rate reflects changes over time.
- Usage rate charges are regularly adjusted over the life of the asset based on the actual use of the grid.



Calculate with Precision the Savings Received by Each State

Granular Based on Metrics

- Somewhat.
- Precise? While estimates produce a discrete number, that number may not reflect the real savings received in the future
- By State? Metrics may or may not parse savings by state boundaries. The planner would need to address this question.
- Rates: Because rates are based on a snapshot projection of future savings, rates have nothing to do with the actual savings that are received in the future by each state.

Usage Rate

- Somewhat.
- Precise? Assuming that usage is a reasonable proxy for savings, usage rate measures the actual savings with some precision.
- By State? TO service territories may or may not respect state boundaries.
- Rates: rates are calculated based on an average of actual usage which is a proxy for the savings actually received by TOs.



Administrative ease

Granular Based on Metrics

- Somewhat.
- Since the savings/rate calculations are only completed once when the projects is selected, it minimizes administrative burden.
- But, designing the formulas for each metric can be complicated and contentious, and
- Calculating the savings is a laborious process.

Usage Rate

- Yes.
- Each TO's usage of the regional grid must be calculated regularly (often annually).
- But, these calculations are completed for many purposes not just for the usage rate; so the recalculation is an easy task.



Simple to Understand and to Explain

Granular Based on Metrics

- Somewhat.
- The high-level concept is simple to understand and explain.
- Understanding the formulas and calculations to estimate savings is complex.

Usage Rate

- Yes.
- The high-level concept is simple to understand and explain.
- Calculation of the rate and its application is relatively easy to understand.



Simple Summary of Goals Analysis

	Granular	Usage Rate
Right load pays	Unknowable	Yes
Changes with Time	No	Yes
Detailed savings by state	Somewhat	Somewhat
Administrative Ease	Somewhat	Yes
Simplicity	Somewhat	Yes

Rather than yes/no answers, probably best to assign numbers.
Could also give goals with a higher priority more weight.





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Thank you!

**For additional assistance and technical support,
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Six Cost Allocation Methods

1. **Granular Approach Using Benefit Metrics** - Identify specific beneficiaries and monetize the savings for them.
2. **Usage Rate (a/k/a Postage Stamp)** – Same rate over specified region but charges allocated on use – by volume of energy (MWh) or demand (MW)
3. **Zonal (a/k/a License Plate):** Geographic demarcations based on either flows or the physical location of something, e.g., the Facility, the violations to be solved, etc.
4. **Hybrid** – examples are SPP's Highway Byway, and PJM's DFAX + Usage Rate
5. **Generator Pays a Portion**
6. **Voluntary (cannot be used for *Ex Ante* Method):** parties voluntarily offer to pay.



NATIONAL LAB STATE TECHNICAL ASSISTANCE PROGRAM

• The Resources and Assistance for State Energy Offices and Regulators program provides public utility commissions (PUC) and state energy offices (SEO) with high-impact technical assistance and resources at three different levels of depth and duration: Help Desk, Expert Match, and Deep Dive. Current hot topic areas for technical assistance include: load forecasting for data centers; FERC 1920 compliance filings; integrated grid planning; grid modernization; and interconnection process improvements. Please note that only technical assistance requests that are aligned with federal policy can be supported.

