

ELCON's Policy Wheeling

A Special Report by the
Electricity Consumers
Resource Council (ELCON)

ELCON

February 1989

Introduction

The electric utility industry clearly is becoming more competitive. ELCON believes that the increased competition can bring with it lower costs to electricity consumers.

This does not mean that we can, or should, deregulate the electric utility industry. Indeed, ELCON does not advocate deregulation. We do advocate increased competition in bulk power markets as a means to assure the availability of the lowest cost power possible, consistent with an adequate and reliable supply.

While competition can and should be encouraged in bulk power markets, competition is not practical or possible in transmission. The owner of the transmission grid necessarily must be a monopolist. Transmission must therefore be strictly regulated. The transmission network should be used to facilitate competition in bulk power markets. Transmission facilities must not be used to stifle or inhibit competition.

ELCON proposes the following positions and recommendations as a way to encourage increased competition in the electric utility industry while protecting the reliability of the power supply.

Basic Premises

- A. Transmission is a monopoly.
- B. Transmission is an essential service.
- C. Transmission must be regulated to prevent monopolistic exploitation.
- D. Regulators must provide the owner of the transmission grid an opportunity to recover all prudently-incurred costs on assets used and useful in providing service.
- E. Regulators should allow the owner of the transmission grid an opportunity to earn a fair rate of return.
- F. The rate of return should reflect the riskiness of the investment.
- G. Regulators should establish a revenue requirement based on prudently expended embedded costs.
- H. Rates for transmission service should be designed to (1) generate revenues equal to the revenue requirement and (2) reflect the costs incurred by the utility in meeting their loads.
- I. Rates must not be unduly discriminatory. Rate differentials should reflect real cost differences. Where costs do not vary, rates should not vary.

The Policy

A. Generation:

1. Regulated utilities should competitively bid capacity purchases from unregulated generators. Extreme care must be taken to develop a nondiscriminatory competitive bidding process. Due consideration should be given to reliability. The utility's avoided costs, approved by its regulatory authority, should be the ceiling either for purchases of electricity or for cost recovery from customers if the utility decides to build.
2. As long as there is guaranteed access to multiple markets for nonutility-owned generators, new generating facilities should have no fuel, efficiency, technology or ownership limitations.
3. Divestiture of existing regulated generators into utility- or nonutility-owned entities may create considerable financial and equity problems. Hence, any such restructuring must be carefully evaluated by regulatory commissions with adequate input from consumers. Approval of proposed divestiture must be accompanied by a finding that benefits exceed costs.

B. Transmission:

1. Utility transmission service must remain under strict control of regulation.
2. Applicants that meet specified characteristics should be allowed to apply for wheeling orders. Nonutility applicants should be treated the same as utility applicants for similar service. The appropriate regulatory commission should hold a summary proceeding prior to issuing a wheeling order.
3. State regulatory commissions should have the authority both to order and set rates for intrastate wheeling. A rebuttable presumption should be established that an intrastate wheeling transaction occurs where the contract path is wholly intrastate.
4. FERC should have the authority both to order and to set rates for interstate wheeling. State PUCs should be able to request an expedited hearing at FERC if they choose to intervene.

5. Utilities should bear the burden of showing lack of capacity, degradation of reliability or other factors relating to the inability to provide requested services. Rules should establish a rebuttable presumption that the capability to wheel exists.
6. Customers who cease firm purchases, undertake wheeling and then desire to reestablish firm service should be viewed as new customers by the utility with no superior or inferior standing unless other arrangements (e.g., standby rates, contracts, etc.) have been negotiated.
7. Commissions should have the authority to order the construction of both new transmission lines and appropriate modifications to existing facilities to facilitate wheeling if the net costs attributable to a wheeling applicant are borne by that wheeling applicant and the utility is unable to demonstrate significant adverse impact on the system.
8. Upon request, utilities should be required to establish both wheeling tariffs and terms and conditions on a nondiscriminatory basis. Wheeling orders, tariffs, arrangements, etc., should be public information and should be available in a clear and easily retrievable format.
9. Wheeling rates should be based on cost-of-service. Methods used for calculating the cost of wheeling services should recognize that generally it costs more to wheel over long distances than over short distances. They should take into account the:
 - o degree of firmness of the service,
 - o timing and length of the service,
 - o pattern of loading on the transmission system, and
 - o facilities used to provide the service. Specifically,
 - *all transmission plant is not used in all wheeling arrangements, and
 - *subtransmission and distribution facilities usually are not part of the wheeling rate base.
 Regulatory commissions should carefully study alternatives to the specific costing method(s) to be implemented by the wheeling utility.
10. Except in unusual circumstances, decisions should be rendered on a fixed time schedule. Commissions should have the authority and the responsibility to resolve disputes expeditiously and order interim wheeling.

Clarification of the Policy

Q1. *Does this policy mean that you are advocating mandatory retail wheeling?*

Answer: No. ELCON is not advocating or seeking mandatory retail wheeling. Indeed, we believe retail wheeling is unnecessary in an ideal world where there are not price differentials between utility systems.

Q2. *What do you advocate?*

Answer: We do not advocate nor oppose retail wheeling. We support the position where any applicant may request wheeling orders and have those requests adjudicated before the appropriate regulatory commission.

Q3. *Why do you advocate this position?*

Answer: ELCON members would prefer to purchase energy and capacity from the local utility. However, in far too many situations, the power that is available for purchase is too expensive. There are many reasons why this situation may exist. The electricity may be produced from inefficient generators. The price charged may be greater than the cost of production. Social ratemaking may also exacerbate the situation. The utility may not be operating in a least cost mode. The regulatory authorities may not be pushing the utility hard enough to lower costs.

Q4. *So, under those circumstances, you advocate mandatory retail wheeling?*

Answer: No. In some very limited circumstances and under careful regulatory oversight, we believe that customers should be able to request wheeling service. The Federal Power Act presently bars them from even initiating such a request. We believe that giving users the right to request wheeling would increase competitive pressures in those situations where inefficiencies exist. The right to request a wheeling order is similar to that already held by transmission dependent municipal and other publicly-owned utilities.

Q5. *Would they be guaranteed wheeling service if they initiated such a request?*

Answer: No. Upon request, the appropriate regulatory agency would carefully consider reliability, capacity and other constraints. The regulatory agency would assess the impact on other ratepayers. All interested parties, including utilities and customers, would have an opportunity to present their views and concerns.

Q6. *Wouldn't there be a tremendous number of requests thus greatly increasing the regulatory burden, even if only a few requests are approved?*

Answer: We don't believe so. Commissioners have many ways to control this potential problem. For example, they could establish pre-determined conditions or issue generic responses to anticipated situations.

Q7. *More specifically, who would be given transmission access -- other utilities, industrial customers, all customers over a specified size, all customers of any size or new customers only?*

Answer: Any applicant that is able to obtain an approval from the appropriate regulatory authority.

Q8. *Would customers retain the right to choose between traditional regulated service and transmission service? Would we simply deregulate some or all types of electric service to specified customer groups?*

Answer: We are simply saying that any applicant should have a right to seek a wheeling order if it thinks a case can be made for it before a regulatory body. Unbundled services should not be required for all classes of customers.

Q9. *What notice provisions, if any, would be required for a customer to leave the system? Would they relate in any way to the local utility's capacity situation?*

Answer: Notice provisions usually are clearly specified in existing contracts. This will not change. Additionally, it should be emphasized that a customer using only

transmission service does not necessarily "leave the system." Some customers may prefer to continue to pay a monthly demand charge to its utility to reserve its right to full service at any time. Appropriate notice provision should be determined either by arms-length contract negotiation or on a case-by-case basis as part of the public summary proceeding.

Q10. *Could customers shop for part of their requirements and continue receiving the rest from the local utility? Could they purchase from multiple outside suppliers? Could they play the spot market or would they have to procure specified supplies based upon medium- or long-term contracts?*

Answer: Large industrial customers don't "play" in the market. They make business decisions and live with them. Customers already have to enter into contracts with utilities when they buy significant quantities of power. Purchases from suppliers other than the local utility can only be approved on a case-by-case basis in the summary proceeding.

Q11. *How will metering and scheduling be handled? What backup or load following services will the local utility be required to provide?*

Answer: The same way they are now. Backup, load following and other services should be offered on an unbundled basis. Each should be addressed in the summary proceeding.

Q12. *What rights will customers have to switch back and forth between requirements service and transmission service? What "prodigal son" rights will customers have?*

Answer: Customers that accept transmission service are not "prodigal sons." Customers that accept transmission service, and later wish to return, should be treated as any other "new" load unless other arrangements have been negotiated. Return rights really are not an issue because unduly discriminatory treatment can't be enforced, even if it could be deemed legal. Utilities affected with the public interest never should have either the right or the ability to punish customers in any way.

Q13. *What obligation will the local utility have to expand transmission capability to meet the demands of wheeling customers? Who will decide when there is enough transmission capacity to serve wheeling customers?*

Answer: Public utilities should be required to construct facilities necessary to provide an adequate and reliable electricity supply. This includes transmission capability. Utilities should plan, construct and maintain the regulated transmission network. A rebuttable presumption that the capacity to wheel exists should be established. Commissions should have the authority to order the construction of both new transmission lines and appropriate modifications to existing facilities to facilitate wheeling if the net costs attributable to a wheeling applicant are borne by that wheeling applicant and the utility is unable to demonstrate significant adverse impact on the system.

Q14. *When capacity is constrained, how will wheeling customer/native load customer priorities be established?*

Answer: By the appropriate regulatory commission in the summary proceeding.

Q15. *At least in broad terms, how is it envisioned that transmission rates will be set? Will they be based upon costs, or will they be determined in the marketplace?*

Answer: Wheeling rates should be based on cost-of-service. Methods used for calculating the cost of wheeling services should recognize that generally it costs more to wheel over long distances than over short distances. They should take into account the:

- o degree of firmness of the service,
 - o timing and length of the service,
 - o pattern of loading on the transmission system, and
 - o facilities used to provide the service. Specifically,
 - *all transmission plant is not used in all wheeling arrangements, and
 - *subtransmission and distribution facilities usually are not part of the wheeling rate base.
- Regulatory commissions should carefully study alternatives to the specific costing method(s) to be implemented by the wheeling utility.

Rates should vary by time when costs vary by time. Clear policies on coordination and wheeling pricing should be set by rule.

Q16. *Again, in broad terms, how will rates for remaining services supplied by the local utility be priced? Will they be regulated based upon traditional average costs or will different approaches be used?*

Answer: The same as they should be done now.

Q17. *Finally, will retail bypass be permitted or encouraged? That is, will other entities (customers, utilities or independent entrepreneurs) be permitted to construct connections to nearby transmission systems and therefore completely bypass the local utility?*

Answer: This should be addressed on a case-by-case basis in the summary proceeding. Any entity should be able to build any facility it wishes on its own property, or on property it can obtain, subject to all applicable laws and regulations.