Rate Design – Work Group 3

Sub Group 7.2 +
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Line Losses Part A

Summary of Work to Date (Issues Identified)

Work group discussed the issue of growing balances in the 1588 variance account

Line Losses Part A

Questions of Scope

- No identified issues of scope

Line Losses Part A

Consensus

1. Utilities should be encouraged to adjust loss factors when the annual adjustment to the 1588 account is in excess of 1% of the annual loss throughput.

   An accumulation of 1% of the annual loss throughput should trigger an adjustment in the 1588 account.

Line Losses Part A:

Consensus (continued)

2. Initially, losses should be established starting in 2002 and moved to a 5 year average (consistent with the gas industry) unless other specific information warrants a departure.
3. Loss factors should be brought in line with actual losses, including those of large users and primary-metered accounts.

Line Losses Part A:

Unresolved Issue (Work Continuing)

- Depending upon the Line Loss Part B decision, line loss calculations should be adjusted annually to a five year rolling average or once in five years as part of a loss reduction incentive program.

Line Losses: Part B

Summary of Work to Date (Issues Identified)

- Considered alternate ways of providing incentive to electrical distribution utilities to reduce system losses.
- The group discussed the fact that utilities have little control over changes in line losses which are the direct result of customer actions or new customer connections. These are largely the causes of changes in distribution system losses.

Line Losses: Part B

Questions of Scope

- Should line loss reductions and power factor correction initiatives by LDC's be considered at this time? (This issue is related to conservation and demand management issues that may be discussed in 2005 rates.)

Line Losses – Part B

Alternatives Discussed

- Use of the Total Resource Cost test to establish full funding (including incremental return incentive) or incremental return incentive only for line loss or power factor correction initiatives as part of C&DM. If full funding is employed, there would be no change in the rate base (contributed capital).
- Line losses fixed for a five-year period with no adjustment whether line loss cost is over or under recovered.

Line Losses Part B:

Consensus Items

- Adopt the natural gas model for loss reduction incentive.
- Move to five-year rolling average loss factors as soon as practical.
- If losses are greater than recovered, balances are recovered from customers. If losses are less than recovered, balances are cleared to the investor's credit (The asymmetry provides an incentive for shareholder loss reduction programs.).
- Possible need to accelerate rate-based recognition of investor-funded initiatives.

Line Losses Part B:

Unresolved Issues (Work Continuing)

- What type of loss factor incentive should be put in place to reduce losses?
- Path to be determined.

Distributed Generation:

Summary of Work to Date (Issues Identified)

- The group discussed whether transmission charges benefits received by LDC's resulting from small (1mW nameplate or 2mW nameplate) or larger generator operation should be shared with generators rather than end use customers.
- The transmission system rate decision treats small DG differently from larger DG.

Distributed Generation:
Questions of Scope

1. Does the treatment of distributed generation fall within the scope of the distribution rate handbook?

Distributed Generation:
Consensus

- No consensus was reached on this item.

Distributed Generation:

Unresolved Issues (Work continuing)

1. If within scope, how should the transmission charges be shared?

   Path: back to work group for discussion Possible argument.

Standby Charges

Summary of Work to Date (Issues Identified)

- Recognized the diversity in both the method and level of standby charges.

Standby Charges

Questions of Scope

None

Standby Charges:
Consensus

- Proposing a standardized method of calculating standby charges.
- This is strictly for **load displacement** generation.

Standby Charges

Unresolved Issues (Work continuing)

What will the standardized method be?

Standby Charges:

Recommended Path

- Work group will continue to work on this issue.

Retail Transmission Rates

Summary of Work to Date (Issues Identified)

- The issue is the level of dollars accumulating in RSVA accounts relating to transmission rates including ongoing LV charges.
- The load data collected for cost allocation study in 2007 may provide the necessary basis to adjust retail transmission rates.

Retail Transmission Rates

Questions of Scope

Should any adjustment be made in 2006, or should all adjustments to these rates be deferred to 2007?

Retail Transmission Rates

Consensus

- Consensus was to allow a change in the retail transmission rates to limit the expected annual change in the variance account by 50%
- This change is to be spread uniformly across all classes until 2007 cost allocation process is complete.

Retail Transmission Rates

Unresolved Issues (Work continuing)

1. Specific calculation for the adjustment eg. a spreadsheet

Retail Transmission Rates

Crossovers

- Subject to line loss adjustments, LV charges, rate mitigation

Retail Transmission Rates

Recommended Path

- If within scope, leave with workgroup to determine the calculations.

LV Charges (including Wheeling)

Summary of Work to Date (Issues Identified)

1. Treatment of historic LV charges by HONI recovered by LDC's
2. Recovery of historic LV charges from distributors other than HONI
3. Recovery of ongoing LV charges to LDC's by HONI and other distributors
4. Rate development for ongoing LV charges and related services

LV Charges

Questions of Scope

1. For item # 1, will this issue remain part of the 2006 EDR process or will a decision from the current RAR hearing address this matter?
2. No identified issues of scope for items #2, #3 & #4

LV Charges

Consensus

- Consensus item for issues #2 and #3 (and # 1 if not addressed in the RAR hearing) is that LV charges be treated by distributors on the same basis as transmission and related charges for cost allocation and recovery purposes.

LV Charges

Unresolved Issues (Work continuing)

- Specific calculations for LV Charges (including wheeling).

LV Charges

Recommended Path

- Leave it with the work group.

Demand Determinants (kVA)

Summary of Work to Date (Issues Identified)

- Existing billing practices by LDC's may not be covered by the existing DRH
- Poor power factor contributes significantly to distribution system losses.

Demand Determinants (kVA)

Questions of Scope

None

Demand Determinants (kVA)

Consensus

- Permit existing billing practices including kW, greater of kW or 90% of kVA, and existing 100% kVA billing.
- Permit kVA metering and billing by LDC's on a non-discriminatory basis.
- Encourage utilities not to preclude kVA metering in the future.

Demand Determinants (kVA)

Crossover Issues

- With revenue requirement
- With Smart-Meter initiative

Demand Determinants (kVA)

Recommended Path

- Work group to draft this section of the Distribution Rate Handbook.

Load Transfer Double Charging

Summary of Work to Date (Issues Identified)

- Transmission system charges and potentially LV charges associated with temporary load transfers were discussed.

Load Transfer Double Charging

Questions of Scope

1. Should this item be addressed in the 2006 EDR proceeding?
2. Should it be decided as a code proceeding? (e.g. the transmission system code perspective or as part of the distribution system code?)

Load Transfer Double Charging

Consensus

- There is no consensus on this issue.

Load Transfer Double Charging

Recommended Path

- If it is a distribution rate handbook issue, the item remains unresolved and will require further discussion and likely argument.