

PROJECT NO. 27290

PUC RULEMAKING PROCEEDING	§	
TO REVISE SUBSTANTIVE RULE	§	PUBLIC UTILITY COMMISSION
§25.193, DISTRIBUTION SERVICE	§	
PROVIDER TRANSMISSION COST	§	OF TEXAS
RECOVERY FACTORS (TCRF)	§	

**ORDER ADOPTING AMENDMENTS TO §25.193, DISTRIBUTION
SERVICE PROVIDER TRANSMISSION COST RECOVERY FACTORS (TCRF),
AS APPROVED AT THE JUNE 5, 2003 OPEN MEETING**

The Public Utility Commission of Texas (commission) adopts an amendment to §25.193, relating to Distribution Service Provider Transmission Cost Recovery Factors (TCRF), with changes to the proposed text as published in the April 11, 2003, issue of the *Texas Register* (28 TexReg 3030). The amendment modifies the TCRF formula in §25.193(c). The TCRF formula in §25.193(c) permits a distribution service provider (DSP) to adjust its distribution rates to retail electric providers (REPs) to conform to changes in transmission rates. The formula is being revised to better reflect its purpose. The current formula, which includes a component for the base electric load (BL), allows the TCRF to be adjusted based on changes in load, as measured on the transmission system. With the removal of the BL component, the TCRF will reflect only changes in wholesale transmission rates, and not changes in load. This amendment is adopted under Project Number 27290.

The commission received comments on the proposed amendment from Oncor Electric Delivery Company (Oncor), CenterPoint Energy Houston Electric, LLC (CenterPoint), and AEP ERCOT Companies (AEP), who were all, generally, in favor of the amendment.

Oncor recommended to modify the mathematical relationship shown in the proposed amendment by adding brackets around the entire calculation that the mathematical summation sign should be applicable to. Oncor did not feel that its proposed changes represented a significant modification to the proposed amendment. CenterPoint added in reply comments that if the recommendation of Oncor was accepted, then the variables in the formula needed to be properly subscripted such that the variables are appropriately matched. CenterPoint stated that the proper subscripts should remove any confusion over the manner in which to apply the formula.

The commission agrees with Oncor that the formula should be revised to place brackets around "NWTR*NL" and "BWTR*NL," as reflected in the revised formula in the rule that is being adopted. This change will eliminate potential confusion and more accurately reflect the intent of the commission. The commission also agrees with CenterPoint that in order to make the formula technically correct, the summation signs should be properly subscripted. This change will also make it clear that, the new load (NL) and new wholesale transmission rate (NWTR) components must match. That is, the NL and NWTR must correspond in time. Similarly, the NWTR must also match the base wholesale transmission rate (BWTR); that is, they must relate to the same transmission service provider (TSP). The adjustment formula does not require, however, that the components for different TSPs must correspond as to time. For example, if DSP X Company applies the TCRF in March 2004, to reflect changes in wholesale transmission rates that have been made by two TSPs (A Company and B Company), A Company and B Company may have been granted changes in transmission rates at different times. In this event NL_A and $NWTR_A$ would match each other, and NL_B and $NWTR_B$ would match each other, but there would not be a

requirement that Company A's components would match Company B's. The rule permits the DSPs to update their rates on specific dates, but it is still possible that they will update the rates to reflect recent change in transmission rates that use load information from different periods to calculate the rates.

CenterPoint commented on an aspect of the rule, based on its assumption that the commission did not intend there to be multiple NLs to be matched with the NWTR. Based on that assumption, CenterPoint commented that the amended rule, as proposed, envisions multiple NLs to be matched with the NWTRs, and that in order for the formula to contain only one NL, the commission should alter the rule so that NL is defined as the DSP's 4 Month Coincident Peak (4CP) load from the previous calendar year. CenterPoint commented that this change would provide more clarity and ensure that the commission's intent is achieved.

As is discussed above, the rule contemplates that the NL components of different TSPs may differ in the timeframe in which the TSPs' rates were adopted. No change has been made to reflect CenterPoint's comment.

AEP commented that one additional revision should be made. AEP expressed the view that the definition of NL should be the DSP's individual ERCOT 4CP load component of the total ERCOT 4CP load from the commission's last approved ERCOT 4CP calculation. AEP stated that this proposed definition would result in only those costs billed the DSPs by TSPs associated

with commission approved or allowed changes in transmission rates to be includible in the TCRF calculation.

The commission concludes that AEP's suggestion is inconsistent with the purpose of the rule. The rule is intended to allow a DSP to recover the additional costs it incurs as a result of the higher rates of a TSP, but not reflect changes in load from one year to the next. To measure the higher level of costs, it must compare the difference between the base costs and the new costs. Each of these is calculated by multiplying the rate by the load to which the rate was applied when it was set. In other words, the rate and load must match at the time the rate was set. AEP's suggestion would, in some instances, require the NWTR component to be multiplied by a load from a different period, and thus it would not accurately reflect only the new transmission costs that the DSP is incurring, based on the new rate, but rather DSPs would be either over-recovering or under-recovering their transmission costs based on changes in load. No change has been made to reflect the comments of AEP.

This amendment is adopted under the Public Utility Regulatory Act, Texas Utilities Code Annotated §14.002 (Vernon 1998, Supplement 2003) (PURA) which provides the commission with the authority to make and enforce rules reasonably required in the exercise of its powers and jurisdiction, and specifically: PURA §35.004, which prescribes the terms of wholesale transmission service and permits the commission to approve rates that may be periodically adjusted to ensure the timely recovery of transmission investment; PURA §35.006 requiring the commission to adopt rules relating to wholesale transmission service rates and access; and

PURA §39.203(a) relating to transmission and distribution service. These amendments to the cost-recovery mechanism specifically implement PURA §35.004(d), which permits the commission to approve rates to ensure the timely recovery of transmission investment.

Cross Reference to Statutes: Public Utility Regulatory Act §§14.002, 35.004, 35.006, and 39.203(a).

§25.193. Distribution Service Provider Transmission Cost Recovery Factors (TCRF).

- (a) **Application.** The provisions of this section apply to all investor-owned distribution service providers (DSPs) providing distribution service within the Electric Reliability Council of Texas (ERCOT) region to retail electric providers and other customers of the distribution system.
- (b) **TCRF authorized.** A distribution service provider subject to this section that is billed for transmission service by a transmission service provider (TSP) pursuant to §25.192 of this title (relating to Transmission Service Rates) shall be allowed to include within its tariff a TCRF clause which authorizes the distribution service provider to charge or credit its customer for the cost of wholesale transmission cost changes approved or allowed by the commission service to the extent that such costs vary from the transmission service cost utilized to fix the rates of the distribution provider. The DSP may only update its TCRF twice a year on March 1 and September 1 of each year to pass through the wholesale transmission cost changes billed for by a TSP. The terms and conditions of such TCRF clause shall be approved by an order of the commission. Compliance tariffs shall be filed with the commission 30 days after the approval of this section.
- (c) **TCRF Formula.** The TCRF for each class shall be computed pursuant to the following formula:

$\frac{[\sum_{i=1}^N (NWTR_i * NL_i) - \sum_{i=1}^N (BWTR_i * NL_i)] * ALLOC}{BD}$	
Where:	NWTR _i is the new wholesale transmission rate of a TSP, approved by the commission by order or pursuant to commission rules, since the DSP's last rate case;
	Σ BWTR _i is the base wholesale transmission rate of the TSP represented in the NWTR _i , used to develop the retail transmission charges of the DSP, in the DSP's last rate case;
	NL _i is the DSP's individual 4CP load component of the total ERCOT 4CP load information used to develop the NWTR _i ;
	ALLOC is the class allocator approved by the commission to allocate the transmission revenue requirement among classes in the distribution service provider's last rate case, unless otherwise ordered by the commission; and,
	BD is each class' annual billing determinant (kWh, or kW, or kVa) for the previous calendar year.

- (d) **TCRF charges.** A DSP's TCRF charge shall remain in effect until adjusted under this section or its delivery rates change, following a rate proceeding that it or the commission initiates.
- (e) **Reports.** The distribution service provider shall maintain and provide to the commission, semi-annual reports containing all information required to monitor the costs recovered through the TCRF clause. This information includes, but is not limited to, the total estimated TCRF cost for each month, the actual TCRF cost on a cumulative basis, and total revenues resulting from the TCRF. The reports will be filed on March 31 and September 30 of each year.

This agency hereby certifies that the rule, as adopted, has been reviewed by legal counsel and found to be a valid exercise of the agency's legal authority. It is therefore ordered by the Public Utility Commission of Texas that §25.193, relating to Distribution Service Provider Transmission Cost Recovery Factors, is hereby adopted with changes to the text as proposed.

ISSUED IN AUSTIN, TEXAS ON THE _____ DAY OF _____ 2003.

PUBLIC UTILITY COMMISSION OF TEXAS

Rebecca Klein, Chairman

Julie Parsley, Commissioner