

NLH 37 Related to classifying transmission costs:

- (a) Is it true that the Federal Energy Regulatory Commission (FERC) regulates transmission pricing in the U.S.?
- (b) Is it true that the so-called FERC pro-forma transmission rates called for in FERC Order 888 is universally used in the U.S., so long as there are no constraints, is calculated by dividing the total annual cost of transmission by the single coincident peak demand for point-to-point transmission service, and by either the single coincident peak, or the average of the twelve monthly coincident peaks for network transmission service?

RESPONSE:

- (a) The Federal Energy Regulatory Commission (“FERC”) regulates wholesale transmission pricing; that is, rates for wheeling service and the transmission component of wholesale service. State regulatory commissions regulate all retail rates, including the recovery of all transmission costs and wholesale transmission charges. Thus, transmission cost price signals to ultimate consumers reflect, primarily, cost allocation procedures adopted by state commissions, which frequently adopt cost allocation

procedures and rate design concepts that attribute some transmission costs to energy rather than demand.

(b) This has generally been the case only for that portion of transmission costs allocated to wholesale transactions. Historically, most transmission costs in the U.S. have not involved wholesale sales. In any event, as indicated in the response to part (a) of this question, both FERC transmission costs and transmission costs attributed directly to retail jurisdictions, are ultimately reflected and dealt with in retail cost of service studies and rate designs at the State jurisdictional level.