

1 **Q: Re: Brattle Group Report, pages 10 and 19.**

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Citation 1 (p. 10):

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The network addition policies for load in the six jurisdictions reviewed in Canada most commonly reflect the principle of cost causation, with network upgrades based on a “but-for” analysis, and include provisions for reallocation of costs if new customers join the system.

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In five of six jurisdictions, customers are explicitly required to pay for some portion of the network upgrades. Importantly, these network upgrade payments are in addition to the standard transmission rates, which generally are treated as a separate stand-alone issue. (underlining added)

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Citation 2 (p. 19):

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The FERC’s generation interconnection policies are developed to ensure open access to the transmission network and to further the goals of wholesale competition and allow generators to compete on an equal playing field. To that end, the FERC has two complementary policies: 1) in addition to the facilities needed for physically interconnecting the generation to the transmission network, interconnecting generation customers are responsible for financing network upgrades, with the financing refunded over a pre-determined time period; and 2) in terms of usage of the transmission network once the generator has been interconnected, transmission customers may be charged the “higher of” the embedded cost rate (including network upgrades) or the incremental cost rate based on the required network upgrades.

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The FERC’s “higher of” policy was outlined in its 1994 Transmission Pricing Policy:

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In order to provide new or expanded transmission service, a utility may be required to add expensive transmission assets, which can result in an increase in rolled-in embedded cost rates. To address this possibility, the Commission has allowed a utility to charge transmission-only customers the higher of embedded costs (for the system as expanded) or incremental expansion costs, but not the sum of the two. (underlining added)

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- 1 a) **Is the but for approach referred to above, used by five of the six Canadian**
2 **jurisdictions surveyed, consistent with FERC’s transmission upgrade**
3 **policy applicable to new loads?**
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- 5 b) **In the Canadian jurisdictions referred to in Citation 1, does the fact that**
6 **network upgrade payments are in addition to standard transmission rates**
7 **conflict with FERC’s higher of policy, which prohibits and pricing? If not,**
8 **why not?**
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- 10 A. a) Whether any particular transmission policy used in the Canadian jurisdictions
11 referred to in Citation 1 is consistent with a FERC policy, in this case FERC’s
12 transmission upgrade policy applicable to new load, would require a detailed
13 analysis. It would require a thorough comparison of the two policies, taking
14 into account different factors such as, the underlying goals and objective of the
15 policies, the policies’ development and transition over time, and actual
16 implementation issues and conditions. Brattle has not conducted such an
17 analysis. In general, the “but for” approach is a succinct name for a high-level
18 methodology used to determine the costs of network upgrades required to
19 accommodate new generation or demand on the system. As described in Figure
20 1 on page 7 of the Brattle Report, the “but for” analysis compares the current
21 system to the system with the new or additional load or generator in order to
22 determine the network upgrade costs. We believe that at a high level the “but
23 for” approach in the five Canadian jurisdictions seems to be generally consistent
24 with FERC’s “but for” policy as well, while recognizing the fact that the
25 implementation of the approach among the Canadian jurisdictions and FERC
26 can differ.
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- 28 b) Whether any particular transmission policy used in the Canadian jurisdictions
29 referred to in Citation 1 is in conflict with a FERC policy, in this case FERC’s
30 higher of policy, would require a detailed analysis. It would require a thorough
31 comparison of the two policies, taking into account different factors such as,
32 the underlying goals and objective of the policies, the policies’ development
33 and transition over time, and actual implementation issues and conditions.
34 Brattle has not conducted such an analysis. In general, an objective of the
35 higher of policy is to prevent monopoly pricing of transmission services, to
36 prevent an over-recovery of the transmission revenue requirement and to
37 remove barriers or impediments to wholesale competition. These would all be
38 factors to consider in any comparison. With respect to network upgrades costs
39 and transmission rates, the jurisdictions typically take into account anticipated
40 revenues when determining whether there will be a network upgrade charge and

1 the amount of the charge, something that would also be a relevant factor to
2 consider in any comparison.