

## **Applications for Participating Transmission Owner Status Attachment C - Transmission Revenue Requirement**

The Transmission Revenue Requirement (TRR) for each Participating TO reflects the Participating TO's costs associated with all transmission facilities under the Operational Control of the ISO.

A Participating TO's Transmission Revenue Requirement shall be based on a twelve month test period and include the Participating TO's:

1. Transmission Operations and Maintenance Expense
2. Transmission-related Administrative and General Expense
3. Transmission-related Tax Expenses
4. Transmission Depreciation Expense or Debt Amortization
5. Capital Costs
6. Cost of transmission by others under Existing Contracts
7. Credits of revenues from transmission for others under existing contracts
8. Other (non-ISO-related) revenue credits allocable to transmission
9. TRBA

The TRR shall be submitted in a format that substantially follows the FERC requirement for TRR submissions or reconciles major differences in format. Participating TO's should use the FERC's Uniform System of Accounts (FERC Accounts) for public utilities, or a comparable accounting system, to develop their TRR, as explained below. Attachment 1 to this Appendix is a template that should be used by the applicant. A Participating TO may, where appropriate and fully documented, include costs and revenues in its TRR that are not included in the FERC Accounts. A Participating TO should produce all supporting data and documentation in a timely fashion. All methods for allocating common and general costs to transmission must be identified and supported.

If less than 100 percent of a Participating TO's transmission facilities are part of the ISO Controlled Grid and recovered through the Access Charge, only the relevant portion of the expenses itemized below are allocable to the TRR. Use of a gross transmission plant allocator—the ratio of a Participating TO's gross transmission plant included in the ISO Control Grid and Access Charge to its total gross transmission plant—should be used for this allocation.<sup>1</sup>

In addition, the TRR associated with all High Voltage Transmission Facilities constructed subsequent to the date on which a Participating TO signed the

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<sup>1</sup> As with all allocators specified in this Appendix, an applicant can use a different allocator if it justifies the use of the preferred allocator and the reasonableness of the result of its application.

Transmission Control Agreement with the ISO should be separated from the balance of the TO's TRR.

### 1) Transmission Operations and Maintenance Expense

This element of the TRR includes the cost of operating and maintaining transmission lines, substations, and control centers. It generally includes all expenses charged to FERC Accounts 560 through 564 and 566 through 574 (or which would be charged to those accounts if the applicant followed FERC's accounting rules).

### 2) Transmission-related Administrative and General Expense

This element of the TRR is the portion of administrative and general expenses (such as employee pensions and benefits, office supplies, and property insurance) allocable to transmission. It generally includes an allocation of all expenses charged (or chargeable) to FERC Accounts 920 through 935. The wage and salary allocator should be used to allocate administrative and general expenses to the transmission function.<sup>2</sup>

### 3) Transmission-related Tax Expenses

#### *a. Property Tax Expense*

This element of the TRR includes all taxes assessed on transmission facilities and a portion of the property taxes assessed on general and common plant. Property taxes on all electric plant generally are recorded in FERC Account 408. A gross plant allocator should be used to allocate property taxes to all types of electric plant, including transmission, general plant, and the electric portion of common plant.<sup>3</sup> The wage and salary allocator should then be used to allocate to transmission a portion of the property tax allocated to general and electric common plant.

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<sup>2</sup> The wage and salary allocator for transmission equals total transmission wages and salaries as a percentage of total non-administrative and general wages and salaries. If a Participating TO's transmission wages and salaries comprise 15% of company-wide non-A&G wages and salaries, the wage and salary allocator would be 15%.

<sup>3</sup> A gross plant allocator for transmission equals total gross transmission plant as a percentage of total gross plant, excluding general and common plant. So, if a Participating TO's gross transmission plant comprised 25% of its total gross plant, excluding general and common plant, the gross plant allocator would be 25%.

A "common plant allocator" commonly is used to determine the "electric portion" of common plant. It equals total gross electric plant as a percentage of total gross plant, less common plant. Thus, if gross electric plant comprised 50% of total (*i.e.*, electric and all other) gross plant, 50% of property taxes allocable to common plant would be assigned to electric common plant.

*b. Transmission-related Payroll Tax Expense*

This element of the TRR includes all payroll taxes assessed on transmission wages and salaries and a portion of the payroll taxes assessed on administrative and general wages and salaries. Payroll taxes include social security taxes (including the Medicare portion), federal unemployment taxes, and state unemployment taxes. All payroll taxes generally are recorded in FERC Account 408. A wage and salary allocator should be used to allocate a portion of the payroll taxes assessed on administrative and general wages to transmission.

*c. Transmission-related Business and other Taxes*

This element of the TRR includes that portion of Business and other Taxes allocable to transmission. Business and other Taxes include gross revenue or receipts taxes, ad valorem taxes, franchise taxes, federal excise taxes, and all other taxes assessed by federal, state, county, municipal, or other local governmental authorities, except for income taxes, payroll taxes, and property taxes. Governmental entities should include payments in lieu of taxes, if any, in this TRR element. All of these taxes generally are recorded in FERC Account 408. A gross plant allocator should be used to allocate such Business and other Taxes to transmission.

4) Transmission Depreciation Expense or Debt Amortization

This element of the TRR accounts for the wear and tear that occurs on transmission facilities over their useful operating lives. In addition to the depreciation of transmission facilities, this TRR element generally also includes a portion of the depreciation of general and electric common plant. Depreciation expenses for all types of electric plant generally are recorded in FERC Account 403 and function-specific sub-accounts. The wage and salary allocator should be used to allocate to transmission a portion of the depreciation expense charged to general and the electric portion of common plant.<sup>4</sup> Governmental entities may use debt amortization in place of depreciation, provided that all allocations of debt payment costs to transmission are fully documented.

5) Capital Costs

For investor-owned Participating TOs, this element of the TRR establishes the “return” on transmission-related investments. This revenue requirement generally is determined by multiplying a Participating TO’s allowed return on rate base by its transmission rate base—which generally also includes an allocated portion of general plant, the electric portion of common plant, and working capital. A Participating TO must fully document the determination of its allowed return and its transmission rate base.

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<sup>4</sup> The common plant allocator should be used to allocate common plant depreciation to the electric portion of common plant.

For Governmental Entities and Electric Cooperatives, this element of the TRR generally equals the interest expense associated with the financing of transmission facilities, including a portion of the cost of proprietary capital and interest expense related to the financing of general and common electric plant.<sup>5</sup> The interest expense of debt instruments dedicated to specific transmission facilities should be assigned directly to those facilities. For transmission facilities that are not financed through dedicated debt instruments, interest expenses need to be allocated to the transmission portion of the financed assets.

Depending on the debt instrument, a gross plant allocator or net plant allocator can be used for the purpose of this allocation. This allocation can also be accomplished by multiplying a Participating TO's weighted average rate for long-term debt (including proprietary capital, if any) by the net book value of the transmission facilities. The amount of long-term debt generally is recorded in FERC Accounts 221-226, while the amount of proprietary capital generally is recorded in FERC Accounts 215-216. Net book value equals gross transmission plant less accumulated depreciation of transmission plant.<sup>6</sup>

The same allocation process should be used to derive a Participating TO's interest expense for general plant and the electric portion of common plant. The wage and salary allocator then should be used to allocate to transmission a portion of such interest expense for general and electric common plant.

#### 6) Cost of Transmission by others under Existing Contracts

This element of the TRR includes all payments attributable to Existing Contracts. Such payments generally are recorded in FERC Account 565.

#### 7) Credits of Revenue from Transmission for others under Existing Contracts

This element of the TRR deducts all revenues attributable to payments for service provided under Existing Contracts. Such revenues generally are recorded in FERC Account 456.

#### 8) Other (non-ISO-related) revenue credits allocable to transmission

This element of the TRR includes all revenue credits associated with or properly allocable to transmission service other than those included in TRR elements #7 (revenues from Existing Contracts) or #9 (TRBA). Such revenues, for example, are recorded in FERC Accounts 418, 419, 447, 454, and 456. To the extent that

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<sup>5</sup> If debt service payments are bundled to include both interest and amortization of principal, the Participating TO must make sure that such debt service costs are not double counted in TRR element #5 (depreciation or debt amortization).

<sup>6</sup> Net book value may need to be adjusted for transmission-related electric plant held for future use (FERC Account 105), prepayments (FERC Account 165), and deferred tax items, if any (FERC Accounts 190, 255, 281-283).

interest income reported in Account 419 is already credited against capital costs (TRR Item #5); double counting of such credits must be avoided.

A portion of revenues recorded in FERC Account 447 (Sales for Resale) is allocable to transmission only to the extent that such sales revenues include (bundled) transmission service. One method for allocating a portion of Account 447 revenues to transmission is to multiply the quantity of bundled electricity sales for resale (MWh) by the ISO's current Access Charge.

#### 9) TRBA

This element of the TRR includes the amount of revenue credits that are recoverable in a Participating TO's TRBA Adjustment, as defined in section 5.5 of a Participating TO's tariff. The TRBA mechanism was established to ensure that revenues received by a Participating TO for Wheeling service, Usage charges, and sales of FTRs are flowed through to its transmission customers. It is the summation of the unamortized balance in the TRBA as of November 30 of the prior year (as recorded in FERC Account 254), the test year forecast of Transmission Revenue Credits, and the interest balance for the TRBA.

#### **Allocation of TRR Between High Voltage and Low Voltage Transmission**

Each Participating TO must allocate all of its transmission facilities under the ISO's Operational Control into one of two categories: 1) High Voltage Transmission Facilities, and 2) Low Voltage Transmission Facilities. Only the cost of High Voltage Transmission Facilities is to be recovered in the High Voltage Access Charge administered by the ISO.

##### I. Classification of Transmission Facilities

The following criteria shall be used to classify transmission facilities under the ISO's Operational Control as either High Voltage Transmission Facilities or Low Voltage Transmission Facilities. This includes transmission facilities that the Participating TO either owns or to which the Participating TO has an Entitlement that is represented by a Converted Right.

High Voltage Transmission Facilities include:

- 1) All transmission lines operating at voltages of 200 kV and above;
- 2) All transmission lines (regardless of voltage) that interconnect the Participating TO's transmission system with entities outside the ISO Control Area; and
- 3) All station equipment (regardless of voltage) located at substations that connect to the 500 kV system.<sup>7</sup>

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<sup>7</sup> For example, all transmission assets recorded at substations that connect a 500 kV line to a 115 kV line would be included in the High Voltage Transmission Facilities category.

- 4) All station equipment located at substations that only connect to transmission line operating at voltages of 200 kV and above.<sup>8</sup>

Low Voltage Transmission Facilities include all transmission facilities not included in the High Voltage category, such as transmission lines operating at voltages of less than 200 kV and all station equipment (regardless of voltage) located at substations that connect transmission lines operating at less than 200 kV.

## II. Allocation of TRR to High Voltage and Low Voltage Transmission Facilities

Each Participating TO must establish a method to allocate its TRR identified in Part B [of what?] to High Voltage and Low Voltage Transmission Facilities. All such allocation methods must be identified and fully documented. Unless another method is justified, costs should be allocated to High Voltage and Low Voltage Transmission Facilities according to the portion of a Participating TO's gross transmission plant that is comprised of High Voltage Transmission Facilities and Low Voltage Transmission Facilities. For example, if 60% of a Participating TO's gross transmission plant in service is comprised of Low Voltage Transmission Facilities and 40% is comprised of High Voltage Transmission Facilities, the TO's TRR should be allocated according to these same percentages.

All TRR components that relate directly to either High Voltage or Low Voltage Transmission Facilities should be assigned directly. For example, an interest expense that relates to dedicated debt instruments used to finance a 500 kV transmission project should be assigned directly to the Participating TO's High Voltage TRR. Similarly, the cost of (or revenue from) an Entitlement to transmission facilities operating at above 200 kV should be assigned directly to a Participating TO's High Voltage TRR. If the transmission service provider and transmission customer associated with such an Entitlement are both Participating TOs, they should coordinate their allocation procedure to ensure that the transmission provider's allocation of the revenue associated with the Entitlement is consistent with the allocation of the transmission customer's cost of that Entitlement.

### **Consistent Definition of Gross Load Used for Access Charge Determination**

A Participating TO must submit a forecast of Gross Load for the same twelve-month test period to which the TRR applies. Gross Load shall mean all Energy (adjusted for distribution losses) delivered for the supply of Loads directly connected to the transmission facilities or Distribution System of the UDC, MSS,

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<sup>8</sup> For example, all transmission assets recorded at stations that connect a 345 kV line with a 230 kV line also would be included in the High Voltage Transmission Facilities category.

and any Energy provided by Scheduling Coordinators for the supply of Loads not directly connected to the transmission facilities or Distribution System of a UDC or MSS. This Gross Load also includes load that is served by Standby customers. Gross Load should not include any Energy associated with Wheeling service. A Participating TO should ensure that its forecast of Gross Load is consistent with the ISO-metered load on which the Access Charge is assessed.