Issue Paper

Point-to-Point Short-Term Rate Structure

Background

TBL's short-term rates for Point-to-Point transmission service (PTP, IS, and IM) and the required Ancillary Services (GSR and Scheduling and Dispatch) are based on a modification of FERC's Appalachian formula. The Appalachian formula calculates the short-term rates from the annual rate:

The Monthly rate is 1/12th the Annual rate

The Weekly rate is 1/52nd the Annual rate

The Daily rate is 1/5th the Weekly rate

The Hourly rate is 1/16th the daily rate.

The purpose of this design seems to be to reduce the incentive for customers to "cherry pick" the peak hours of the day and the peak days of the week.

TBL offers short-term service for any number of days up 364 days, so a modification of the formula was needed. For all service between 1 and 364 days, the first 5 days (Daily Block 1) are priced at the Daily rate from the above formula (Annual rate/(52*5)). All days over 5 are charged the Daily Block 2 rate which is the Annual rate/(52*7).

This rate design eliminated discontinuities in the formula (the 6th and 7th days free) and solved the problem of what to charge for an uneven number of days, like 11 or 52.

The hourly rate is calculated using the above formula — Daily Block 1 rate / 16.

Issues

The Daily Block structure introduces some complexity in billing and ratemaking, and is different from the short-term rate structure of other transmission providers. This may be a problem as transmission providers move to common OASIS structures. It also contributes to complexity in calculating the rates and bills in a short-term redirect situation.

Given a fixed forecast of short-term sales, the higher Daily and Hourly rates produce a greater dependence on these uncertain sales. The higher rates may also inhibit some short-term business. The customers argue that short-term business can be increased through discounting. TBL has offered some discounts, but it is difficult to identify a situation where the additional business created by the discount (if any) more than offsets the revenue lost from business that would have paid the undiscounted rate.

Options

1. Stay with the current methodology

2. Eliminate Daily Block 1—All short-term service greater than a day would be at (Annual Rate divided by 365) per day. Hourly rate would be 1/16 of the Daily rate.

3. Same as 2, except hourly rate is 1/24 of Daily rate.

TBL Recommendation: Option 2.

Impact: Given the current forecast of short-term sales, this would reduce the forecasted short-term revenue by less that $1M, causing the long-term and other short-term rates to be slightly higher.