

Crediting for Transmission-Related Capital Investments

Under certain circumstances, Western Area Power Administration (Western) repays funds advanced for transmission-related capital investments, primarily in the form of transmission invoice credits or transmission service net billing. Most notably, such repayment is provided for funds advanced for the construction of (1) new physical transmission facilities or expansions of existing facilities necessitated by open access transmission service requests when existing transmission capacity is not available to meet such requests or (2) certain transmission system upgrades necessitated by a generator or a load seeking to interconnect to Western's transmission system. As an example of the latter, Article 11.4.1 of Western's Large Generator Interconnection Agreement (LGIA) states, in pertinent part:

Interconnection Customer shall be entitled to ongoing credits to its transmission charges, the total amount of which will be paid in a timely manner and will equal the total amount paid to Transmission Provider and Affected System Operator, if any, for the Network Upgrades, to be credited to Interconnection Customer on a dollar-for-dollar basis for the non-usage sensitive portion of transmission charges, as payments are made under Transmission Provider's Tariff or Affected System's Tariff for transmission services with respect to the Large Generating Facility; provided, that Transmission Provider shall net bill or bill credit Interconnection Customer for any amounts to be credited. Any credits shall include interest calculated from the date of any payment for Network Upgrades through the date on which the Interconnection Customer receives a repayment of such payment pursuant to this subparagraph, with such interest to be fixed for the length of the crediting period at the lower of either (1) Interconnection Customer's interest rate applicable to the Network Upgrades or (2) the Federal interest rate applicable to Transmission Provider's Affected System at the time the Network Upgrades are placed in service and ownership thereof is transferred to Transmission Provider. With Transmission Provider's approval, Interconnection Customer may assign such crediting rights to any person having an executed net billing or bill crediting agreement with Transmission Provider that is effective throughout the entire term of the assignment. . . . Notwithstanding the foregoing, Transmission Provider or Affected System Operator will continue to provide credits to Interconnection Customer on a dollar-for-dollar basis for the non-usage sensitive portion of transmission charges, without any restriction as to the period of time under which such crediting will occur.

Western has developed a non-discriminatory internal policy regarding crediting for transmission-related capital investments that avoids adverse rate impacts to Western's existing preference, project use, and transmission customers. Salient points of that policy, which reflect the Federal Energy Regulatory Commission's (FERC) Large Generator Interconnection Network Upgrade crediting policy and Western's related statutory and budgetary requirements as outlined in its filing with FERC under Docket No. NJ05-1-000, are:

- All costs for construction of transmission and interconnection facilities, including any accommodations to Western's existing system, must be paid in advance by the party necessitating that construction (Party). Title to the applicable facilities must be conveyed by the Party to Western prior to when the Party begins transmitting energy over those facilities.
- Western will repay funds advanced for construction of only those facilities that Western deems to be Network Upgrades in accordance with FERC's Order No. 2003, et seq., Western will not repay funds advanced for the construction of any "direct assignment" interconnection facilities necessitated by the interconnection of a generator or a load.
- Western will repay funds advanced for construction, and the relevant interest, through net billing, bill crediting, or a service credit arrangement. Interest will be fixed for the life of the crediting period at the lesser of either (1) the composite loan interest rate incurred by the Party for the construction or (2) the Federal interest rate in effect at the time title to the facilities is transferred to Western, with the latter defined as Western's authorized yield rate or coupon rate of the Federal project to which the construction applies.
- The Party or its assignee must take transmission service over Western's system as a condition for receiving credits for the advanced construction funds. Crediting will be applicable only to the non-usage portion of the transmission service taken for the relevant interconnected generator or load, and will continue only as long as such service is taken from Western.
- A fixed repayment schedule will be agreed upon between Western and the Party, with provisions to be made to adjust the repayment period for contingencies, as discussed below. As part of determining that schedule, Western will generally set the credited amounts at 70% of the non-usage portion of the transmission invoice, although the percentage may be adjusted downward if facility operations and maintenance costs are not to be paid in advance.

- If the repayment period exceeds the service life of the applicable facilities, the Party will be required to provide advance funding for any facilities replacements at the time they become necessary.
- Western will include in the repayment agreement a unilateral option on Western's part to extend the repayment period beyond the original term. However, Western will exercise that option only if and as needed, such as when advance funding of any facility replacements becomes necessary and the credited amount would thereby exceed the original set invoice percentage absent an extension of the repayment period.