



## Voltage Conversion – Cost Allocation

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### BUSINESS PRACTICE

Costs associated with modification or replacement of the distribution transformers and related systems or facilities of other entities incurred as a result of ATC's voltage conversion needs shall be borne by such other entity.

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### PURPOSE

The purpose of this document is to define responsibilities for cost allocations associated with equipment affected by ATC voltage conversions.

### SCOPE AND/OR APPLICABILITY

ATC will, on occasion, improve the capability of its network by increasing operating voltage of a transmission line. As a result, the distribution transformers and related or connected systems or facilities of other entities including distribution companies, other transmission companies, and directly connected retail customers may require replacement. Consistent with applicable agreements, state and federal laws and regulations, and consistent with distinctions segregating transmission-related costs from distribution-related costs in traditional rate making methods, ATC will incur the costs associated with its transmission facilities. ATC intends to continue to maintain the appropriate distinction between transmission and distribution asset ownership when transmission-operating voltage is increased on the transmission system.

Consequently, costs associated with modification or replacement of the distribution transformers and related systems or facilities of other entities incurred as a result of ATC's voltage conversion needs shall be borne by such other entity. Therefore the affected entities continue to be responsible for all necessary upgrades at affected substations, or other facilities, at the first point of disconnect on transmission side of transmission to distribution/generation voltage transformers. Costs including but not limited to removal and replacement of the existing affected transformer(s) or other facilities will be the sole responsibility of the affected party. Any tax implications associated with the voltage conversion facility impacts will be the responsibility of the affected party.

## RATIONALE

For a voltage conversion affecting interconnected step-down or step-up transformers, if the same company owns both sets of facilities the transmission improvements will be booked to transmission accounts and the distribution or generation improvements will be booked to distribution or generation accounts. The appropriate dividing line between these functions and the associated cost treatment for rate purposes has already been established by state regulators and accepted by FERC. This Business Practice reflects applicable regulatory requirements and recognizes that each entity is allowed to earn a return on its respective investment in facilities. This Business Practice also helps minimize ultimate project costs since significant additional tax costs could be incurred if ATC were to reimburse parties for all costs incurred in replacing, constructing or reconfiguring elements of their systems and such reimbursement was considered as taxable income to the recipient. The tax costs will not contribute to the overall value of the reconfigured system, but will merely increase the tax liability of the party receiving payment from ATC. This Business Practice maintains the transmission boundary in ATC's area that has been accepted by customers, regulators, and other regional entities while recognizing that the underlying purpose of voltage conversion is to meet the increasing needs of ATC transmission customers, who themselves are experiencing load growth.

## SUPPORTING INFORMATION

ATC will continually strive to fully inform all customers on planned voltage conversions and anticipated voltage conversions as far in advance as possible. ATC will also communicate to customers the need to consider dual winding replacement transformers where applicable to anticipate a voltage conversion in a specific area and where the LDC is considering or requiring a transformer replacement in advance of the voltage conversion. Consistent with this Business Practice, ATC will not cover expenses associated with the purchase of dual winding transformers.

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