RSC Regional State Committee
FOR THE SOUTHWEST POWER POOL

1000 Center St. Little Rock, AR 72201

Southwest Power Pool
REGIONAL STATE COMMITTEE

Skirvin Hilton, Oklahoma City, OK

June 16, 2008

• M I N U T E S •

Administrative Items:
Members in attendance were:
Julie Parsley, Public Utility Commission of Texas (PUCT)
Jeff Cloud, Oklahoma Corporation Commission (OCC)
Jeff Davis, Missouri Public Service Commission (MPSC)
Mike Moffet, Kansas Corporation Commission (KCC)
Colette Honorable, Arkansas Public Service Commission (APSC)

President Parsley called the meeting to order at 5:20 p.m. Cheryl Robertson (SPP) called roll and a quorum was declared. There were 16 in attendance (Attendance – Attachment 1).

Others in attendance via phone were:
Tom Debaun, Kansas Corporation Commission
Patrick Smith, Kansas Corporation Commission
James Sanderson, Kansas Corporation Commission
Larry Holloway, Kansas Corporation Commission
Kip Fox, American Electric Power
Jim Eckelberger, SPP Director
Harry Skilton, SPP Director
Mike Palmer, Empire District
Richard Spring, Kansas City Power and Light
Walt Shumate, Edison Electric Institute
Carl Monroe, Southwest Power Pool

Dr. Proctor provided an update on proposed tariff provisions regarding a Balanced Portfolio for Economic Upgrades (Balanced Portfolio Tariff Provisions – Attachment 2). He credited Pam Kozlowski of Gestalt for her assistance in writing tariff language and her development of the overview material being used in today's discussion. Commissioner Moffet asked about the necessity to capture all scenarios in specific tariff language, hoping instead to allow a focus on process and practicality rather than outcomes. Further discussion reflected upon the existing tariff language dealing with unintended consequences and waivers as possible solutions in these "gray" areas. This process is designed to identify and deal with any red flag issues as well as assure wording is precise and understood. It is hoped that the final tariff language will be complete and presented at the July 28 RSC meeting.

Dr. Proctor then reviewed the proposal approved by the Cost Allocation Working Group (CAWG) for determining the amount of wind resources to be included in Base Plan funding (Designated Wind Resources – Attachment 3).

- **Safe Harbor**
  - Uses Requested Transmission Capacity (e.g., name plate capacity)
  - Applies to all costs assigned to transmission service request

- **Sink Zone Costs**
  1/3 Postage Stamp
  2/3 MW-Mile

- **Non-Sink Zone Costs**
  2/3 Postage Stamp
  1/3 Direct Assignment

- **Limits**
  - Wind DR MW of Transmission Service ≤ 20% (Forecasted Summer Peak)
  - For the capacity limit of 125% of load, a designated wind resource's capacity should be evaluated at its accredited capacity (e.g., 10% of name plate capacity).

- **Waivers**
  - Waivers will be considered

- **Caps**
  - None

Dr. Proctor added that the question was raised during the May RSC teleconference as to what would happen to costs assigned to a request if wind designated resources exceeded the 20% peak demand limit. The CAWG unanimously supported having those costs directly assigned to the requestor. President Parsley asked for a motion to approve the revised policy for cost allocation of designated wind resources. **Jeff Davis moved to approve the CAWG recommendation. Mike Moffet seconded the motion, which passed unanimously.**

Carl Monroe provided an update on SPP membership development. Mr. Monroe stated that three Nebraska entities signed a Memorandum of Understanding (MOU) about a month and a half ago to have SPP provide services: Lincoln Electric System, Nebraska Public Power District and the Omaha Public Power District. The transition team effort has begun.

Les Dillahunty reminded the group of the SPP Regional State Committee Demand Response Educational Forum scheduled for July 27 (1:00 p.m. – 5:00 p.m. CDT) and July 28 (8:00 a.m. – 12:00 p.m. CDT) and the RSC meeting on July 28 (1:00 p.m. – 5:00 p.m. CDT) in Kansas City, MO.

With no further business, the meeting was adjourned.

Respectfully Submitted,

Les Dillahunty

1000 Center St. Little Rock, AR 72201

SPECIAL MEETING

Monday, June 16, 2008

5:15 pm – 6:00 pm CDT

The Skirvin Hilton, Oklahoma City, OK

1. **CALL TO ORDER**
2. **PRELIMINARY MATTERS**
   a. **Declaration of a quorum**
3. **BUSINESS MEETING**
   a. **Report on the progress being made toward incorporation of the Concepts Paper on Economic Upgrades to tariff language...Dr. Mike Proctor**

   b. **Adoption of a revised policy for determining the amount of wind resources included for Base Plan funding (action item)…...Dr. Mike Proctor**
4. **Membership Development...Carl Monroe**
5. **ADJOURNMENT**

SPECIAL MEETING
Monday, June 16, 2008
5:15 pm – 6:00 pm CDT
The Skirvin Hilton, Oklahoma City, OK

ATTENDANCE

Les Dilahunty	Southwest Power Pool
Brett Leopold	ITC Great Plains
Patrick Clarey	FERC
Sam Loudenslager	Arkansas Public Service Commission
Mike Proctor	Missouri Public Service Commission
Bill Wylie	Southwest Power Pool
Mike Moffet	Kansas Corporation Commission
Colette Honorable	Arkansas Public Service Commission
Jeff Davis	Missouri Public Service Commission
Joyce Davidson	Oklahoma Corporation Commission
Phil Crissup	Oklahoma Gas & Electric
Shawn Lepard	City of Guymon
Mel Perkins	Oklahoma Gas & Electric
Jay Caspary	Southwest Power Pool
Rick Walker	Wind Coalition
Jeff Cloud	Oklahoma Corporation Commission

Southwest Power Pool

Helping our members work together
to keep the lights on...
today & in the future

Southwest Power Pool

Balanced Portfolio: Proposed Tariff Provisions

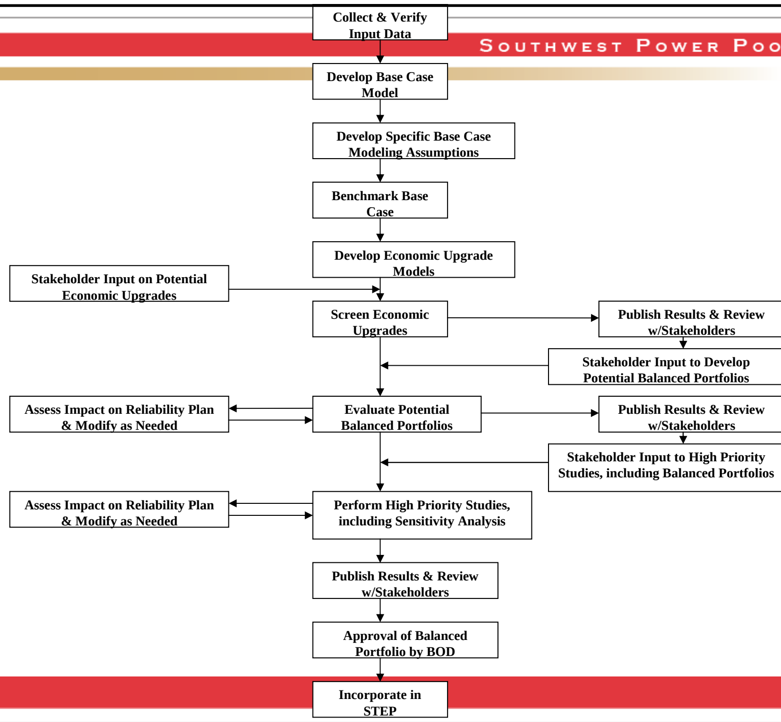
SPP Regional State Committee

June 16, 2008

Developing & Evaluating a Potential Balanced Portfolio

- Need to specify in the Tariff
  - Process to develop a potential Balanced Portfolio
  - Economic upgrades that may be included in a potential Balanced Portfolio
  - Evaluation of the costs and the benefits of a potential Balanced Portfolio
  - Definition of a Balanced Portfolio
  - Options for achieving a Balanced Portfolio
  - Approval process to include a Balanced Portfolio in the STEP

Process to Develop a Potential Balanced Portfolio



Economic Upgrades Included in a Potential Balanced Portfolio

- **Must include a 345 kV or higher voltage facility; and**
- **May include lower voltage transmission facilities needed to integrate the higher voltage facilities & achieve the benefits**
  - **The cost of the lower voltage facilities cannot exceed the cost of the higher voltage facilities**
  - **An upgrade that includes lower voltage facilities that exceed the cost of the higher voltage facilities may be included, if a Project Sponsor agrees to bear the portion of the cost of the lower voltage facilities in excess of the cost of the higher voltage facilities**

Evaluation of the Costs and Benefits of a Potential Balanced Portfolio

Evaluation Assumptions

- The costs (revenue requirements) and benefits for a potential Balanced Portfolio will be calculated:
  - Over the same 10 year period; and
  - As if all the upgrades that comprise the potential BP are simultaneously available to the power system

Costs of a Potential Balanced Portfolio

- For each economic upgrade in the potential BP
  - Estimate construction costs
  - Estimate revenue requirements using the transmission fixed charge rate(s) for the appropriate TO(s)
- Revenue requirements for the potential BP is the sum of revenue requirements of the upgrades that comprise the potential BP
- If any costs of an upgrade in the potential BP will be borne by another funding mechanism, those costs will not be included in the revenue requirements for the potential BP

Zonal Allocation of the Costs of a Potential BP

- Allocate the revenue requirements for the potential BP to each Zone based on its Region-wide Load Ratio Share over the ten year period analyzed

Benefits of a Potential Balanced Portfolio

- Use an adjusted production cost metric to analyze the benefits of a potential BP
- Adjusted production cost = production cost minus revenues from sales plus cost of purchases

Zonal Benefits of a Potential BP

- The adjusted cost benefit for each Zone is the difference between the adjusted cost benefit with the potential BP and without the potential BP modeled

Definition of a Balanced Portfolio

- Cost Beneficial:
  - Sum of the benefits of the potential BP ≥ sum of the costs of the potential BP
- Balanced:
  - For each Zone, the zonal benefits of the potential BP ≥ the costs of the potential BP allocated to the Zone

Options for Achieving Balance

- May include upgrades that do not adhere to the voltage requirements described earlier
- May transfer a portion of the "existing" zonal revenue requirement for a deficient Zone to the region-wide revenue requirement

Approval of a Balanced Portfolio

- The MOPC may endorse one BP developed through the stakeholder process
- The Board may then approve the upgrades in the BP for inclusion in the STEP & construction
- A BP does not need to be developed & approved each year, if:
  - It is determined that there is insufficient benefit to the region from any of the potential BPs; or
  - Consensus on a proposed BP cannot be reached through the stakeholder process

Cost Recovery for Upgrades in an Approved Balanced Portfolio

Cost Recovery for an Approved Balanced Portfolio

- Need to specify in the Tariff
  - ➢ The facilities included in the cost allocation
  - ➢ The cost allocation
  - ➢ The revenue requirement
  - ➢ The rate design / charges
  - ➢ The applicability of the charges to load & other Transmission Customers
  - ➢ The revenue distribution to the Transmission Owners
  - ➢ The reallocation mechanism if a portion of the “existing” zonal revenue requirements for deficient Zones are transferred to the region-wide revenue requirement in order to achieve balance
  - ➢ Cancellation of an upgrade in an approved Balance Portfolio
  - ➢ Treatment of other upgrade costs that are delayed or deferred by an approved Balanced Portfolio

Cost Recovery for Upgrades in an Approved Balanced Portfolio

- Revenue requirement recovered 100% through a region-wide transmission charge
- The region-wide charge applies to:
  - ➢ Resident Load; and
  - ➢ Transmission Customers taking Point-to-Point Transmission Service under the Tariff
- Revenues collected from the region-wide charge are allocated in proportion to each TO based on their revenue requirement that makes up the charge

Reallocation Mechanism for Deficient Zone(s)

- When a portion of the “existing” zonal revenue requirement(s) is/are transferred to the region-wide revenue requirement in order to achieve balance
  - Start reallocation when at least 10% of the estimated levelized annual revenue requirements for the approved BP has been included in rates under the Tariff (trigger date)
  - On the trigger date & the anniversary of the date in each of the subsequent 4 years, reallocate 20% of the estimated levelized annual revenue requirements
  - Upon completion & inclusion in rates of all the upgrades in an approved BP perform true up using actual costs for each upgrade
- No sunset date for the transfers from the zonal to the region-wide revenue requirement

Cancellation of an Upgrade in an Approved Balanced Portfolio

- **Recalculate the costs & benefits without the upgrade**
- **SPP staff will recommend in a report to the MOPC to reconfigure the previously approved BP by:**
  - **Removing the cancelled upgrade; or**
  - **Removing the cancelled upgrade & adding to or eliminating from upgrades contained in the BP**
- **MOPC will consider SPP staff’s recommendation & will provide its own recommendation, along with the SPP staff recommendation, to the Board**
- **For a reconfigured BP approved by the Board, the reallocation of any zonal revenue requirements to the region-wide revenue requirement will be adjusted based on the recalculated costs & benefits for each Zone of the reconfigured BP**

Treatment of Costs of Upgrades that are Differed or Delayed by an Approved Balanced Portfolio

- Currently under discussion at the RTWG
- Should the costs of differed or delayed upgrades be:
  - ➢ Subtracted from the costs of the BP, or
  - √ Added to the benefits of the BP?
- What should be done with differed or delayed costs that were assigned to transmission customers?

Cost Allocation of Designated Wind Resources

Presentation to SPP RSC
May 28, 2008 (Slides 1-4)
Updates from April CAWG Meeting
June 16, 2008 (Slide 5)
Update from the May CAWG Meeting

Remaining Two Proposals

Modified Compromise

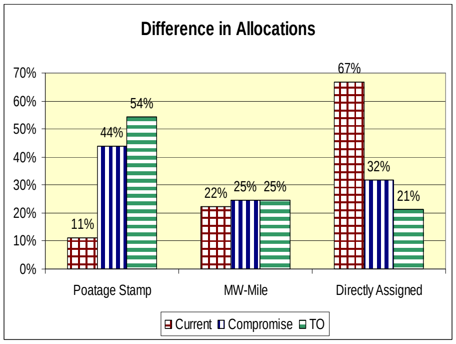
- **Safe Harbor**
  - Uses Requested Transmission Capacity
  - Applies to all costs assigned to transmission service request
- **Sink Zone Costs**
  1/3 Postage Stamp
  2/3 MW-Mile
- **Non-Sink Zone Costs**
  1/2 Postage Stamp
  1/2 Direct Assignment
- **Limits**
  - Wind DR MW of Transmission Service ≤ 20% (Forecasted Summer Peak)
- **Waivers**
  - Waivers will be considered
- **Caps**
  - **Possibly** a limit of 1/3 total cost directly assigned to requestor, with the excess going to the postage stamp rate.

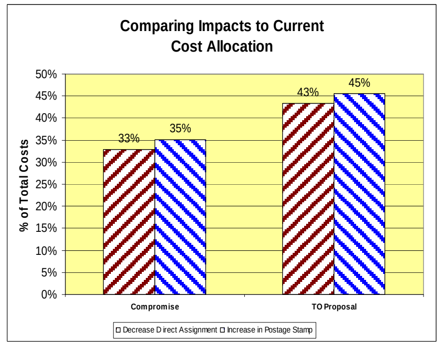
Transmission Owners

- **Safe Harbor**
  - Uses Requested Transmission Capacity
  - Applies to all costs assigned to transmission service request
- **Sink Zone Costs**
  1/3 Postage Stamp
  2/3 MW-Mile
- **Non-Sink Zone Costs**
  2/3 Postage Stamp
  1/3 Direct Assignment
- **Limits**
  - Wind DR MW of Transmission Service ≤ 20% (Net Capacity of Designated Resources)
- **Waivers**
  - No Waivers will be considered
- **Caps**
  - No limits on percent of cost that can be directly assigned to the requestor

Implications from the Two Proposals

The impacts shown below are for a specific example that may or may not be representative of a “typical” request for Designated Wind Resource





This example illustrates:

1. Using Requested Transmission Capacity significantly reduces costs that would otherwise be directly assigned to the requestor.

2. The difference between the Compromise proposal and the TO proposal is costs going into the postage stamp rate and costs that are directly assigned to the requestor.

3

Results of April CAWG

- **Safe Harbor**
  - Uses Requested Transmission Capacity (e.g., name plate capacity)
  - Applies to all costs assigned to transmission service request
- **Sink Zone Costs**

  1/3 Postage Stamp

  2/3 MW-Mile
- **Non-Sink Zone Costs**

  2/3 Postage Stamp

  1/3 Direct Assignment
- **Limits**
  - Wind DR MW of Transmission Service $\leq$ 20% (Forecasted Summer Peak)
  - For the capacity limit of 125% of load, a designated wind resource’s capacity should be evaluated at its accredited capacity (e.g., 10% of name plate capacity).
- **Waivers**
  - Waivers will be considered
- **Caps**
  - None

4

Update from May CAWG Meeting

- During the discussion at the May CAWG meeting the question was raise concerning what would happen to costs assigned to a request for Wind DR that exceeded the 20% peak demand limit.
- The CAWG unanimously supported having those costs directly assigned to the requestor.