

**“THE COMPROMISE POSITION”  
ON  
HIGHWAY-BYWAY  
COST ALLOCATION  
FOR NEW  
SPP TRANSMISSION FACILITIES**

**PRESENTED FOR DISCUSSION  
AT THE MARCH 31, 2010 MEETING  
OF THE  
SOUTHWEST POWER POOL BOARD OF DIRECTORS**

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**PRESENTED BY:**

**CITY POWER & LIGHT OF INDEPENDENCE, MISSOURI  
CITY UTILITIES OF SPRINGFIELD, MISSOURI  
CITY OF CLARKSDALE, MISSISSIPPI  
EAST TEXAS ELECTRIC COOPERATIVE, INC.  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
LAFAYETTE UTILITIES SYSTEM  
LINCOLN ELECTRIC SYSTEM  
LOUISIANA ENERGY AND POWER AUTHORITY  
NEBRASKA PUBLIC POWER DISTRICT  
NORTHEAST TEXAS ELECTRIC COOPERATIVE, INC.  
OMAHA PUBLIC POWER DISTRICT  
PUBLIC SERVICE COMMISSION OF YAZOO CITY, MISS.  
AND  
TEX-LA COOPERATIVE OF TEXAS, INC.**

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## PRESENTATION OVERVIEW

- ▶ The Compromise Position Sponsors and Key Votes
- ▶ Compromise Position Sponsors' Goals
- ▶ Compromise Position Proposal
- ▶ Key Differences
- ▶ Advantages of Compromise Position
- ▶ Recommendations

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## COMPROMISE POSITION SPONSORS and KEY VOTES

- ▶ **Broad cross-section of SPP's membership**
  - in terms of size, location, jurisdiction, asset ownership and membership type (network customers and prospective network customers)
  - opposition real
- ▶ **Don't be misled by the MOPC vote – 64%**
  - 22 Yes, 14 No, 4A –vote by # of entity/member – 61%
  - based on “corporate vs. entity votes” 16/12/4 -57%
- ▶ **RSC vote was not unanimous**

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## COMPROMISE POSITION SPONSORS' GOALS

- ▶ Achieve a broader/greater consensus among the members, RSC, and BOD
- ▶ Develop a cost effective and right-sized transmission system
- ▶ Develop more equitable allocation of costs
  - Compromise Position is middle ground/not optimal
  - Inter-Zonal equity over time

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## THE COMPROMISE POSITION PROPOSAL

COMPROMISE POSITION			
	FACILITY TYPE AND TREATMENT		
	Highway Facilities (300kV and up)	Byway Facilities (100-299kV)	Local Facilities (below 100k)
Transmission Facilities Related to: (A) Non-Renewable Designated Resources, (B) Priority Projects, (C) ITP Projects, and (D) Projects Related to Wind-powered Designated Resources <i>(if Host and Sink Zones are the same) Current</i>	Two-thirds (2/3) of the cost spread to the SPP Region via <b>load ratio share</b> . One-third (1/3) allocated <b>zonally</b> using the MW-Mile positive impact methodology to arrive at the appropriate assignment to each zone (consideration to be given to modifying the current impact threshold for an allocation of cost).	One-third (1/3) of the cost spread to the SPP Region via <b>load ratio share</b> . Two-thirds (2/3) of the cost allocated <b>zonally</b> , again using the MW-Mile method to assign the costs among zones.	Direct assignment to the <b>constructing zone of 100%</b> of the costs of facilities operated at less than 100kV.
Transmission Facilities Related to Wind-powered Designated Resources <i>(if Host and Sink Zones are Not the same)</i>	Same as Current Method – that is, two-thirds (2/3) Regional, and one-third (1/3) directly assigned.	Same as Current Method	Same as Current Method

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## THE COMPROMISE POSITION PROPOSAL (cont'd)

- Continued use of the MW-Mile Method is appropriate
  - ▶ well-established method used for variety of purposes within SPP
  - ▶ spreads costs to zones that benefit
- Alleviates most cost impact concerns for smaller constructing zones – works today

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## THE COMPROMISE POSITION PROPOSAL (cont'd)

- Inter-zonal Cumulative Equity (ICE)
  - ✓ essential to highway/byway cost allocation and the ITP process
  - ✓ aimed at ensuring that no zone is consistently and unfairly harmed
  - ✓ start with the Priority Projects
  - ✓ needs to be more explicit/detailed in Attachment J and O than proposed by SPP staff
  - ✓ deficient benefit-to-cost zones could be allocated a lower level of costs on a future/prospective approved project or set of projects within the next ITP cycle
  - ✓ evaluated over reasonable future time frame
  - ✓ ICE does not require immediate “balance or equity” but rather works toward a reasonable balance of costs/benefits throughout the region over time
- Mechanics and more meaningful detail need to be developed through stakeholder process

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## THE COMPROMISE POSITION PROPOSAL

- ▶ The Compromise Position proposal is “not optimal” for the Sponsors, however it goes a long way toward meeting the objectives of all SPP members and stakeholders for reliability and economic transmission expansion
- ▶ The RSC and Compromise Position proposals are similar, however, there are key differences of method, support, and principal

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## KEY DIFFERENCES

- Key Differences with the RSC approved cost allocation proposal:
  1. Share of costs allocated to SPP region as a whole
    - 67% vs. 100% for highway facilities over 300kV
    - No change for wind DRs vs. 100% for highway facilities over 300kV
  2. Use of the MW-Mile method for allocating costs assigned zonally
    - Use vs. No use
      - MW-Mile key to zonal allocation to better protect small zones
  3. Adoption of a meaningful Inter-zonal Cumulative Equity (ICE) provision

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## ADVANTAGES OF COMPROMISE POSITION

### A. *The Compromise Position provides:*

- ✓ increased regionalization of costs for reliability and economic projects, and is not as radical of a change from today's cost allocation method
- ✓ smoother transition and flexibility within the context of the ITP planning process
- ✓ “better” chance of a receiving a more timely FERC acceptance
  - given current circumstances, not bi-furcating the cost allocation and ITP filings is more appropriate, i.e. single filing as originally planned
- ✓ preserve our tradition of consensus building
- ✓ enable us to move forward sooner with Priority Projects and ITP

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## ADVANTAGES OF COMPROMISE POSITION

### B. *More Consistent with Staff Analysis*

- ✓ Transfer Distribution Factor and Injection Withdraw Utilization analyses “is not” convincing and does “not” support 100% regionalization, but better supports Compromise Position
  - i) use of a TDF threshold of 0.1% is suspect, when 3% is used per Appendix 9
  - ii) SPP staff's use of “non-local” being synonymous with “regional” is not accurate, as many zonal imports occur which are zone-to-zone, not regional

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## ADVANTAGES OF COMPROMISE POSITION (cont'd)

### C. *Promotes Transmission Expansion*

- ✓ Proponents of 100% regionalization assert that existing cost allocation is impeding transmission expansion. Results of STEP and Balanced Portfolio show otherwise
- ✓ However, Compromise Position of 67% regionalization will provide additional incentive to expand the system (over existing methods)

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## ADVANTAGES OF COMPROMISE POSITION (cont'd)

### D. *More Likely To Produce Correct Investment Decisions*

- ✓ full regionalization creates inter-zone subsidies and distorts generation siting decisions
- ✓ the Compromise Position proposal carries the concept of “skin in the game” that promotes cost-containment practices, typically is a requirement for state-level full cost recovery
- ✓ tariff language does not address overbuilding of facilities for export, whereas Compromise Position zonal allocation of highway facilities provides such checks and balances
- ✓ the Compromise Position “continued use” of MW-Mile analysis provides a proven metric to work thru cost sharing w/Seams

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## ADVANTAGES OF COMPROMISE POSITION (cont'd)

### **E. More Likely To Secure Prompt FERC Acceptance**

- i) FERC places great weight on whether a given proposal reflects consensus
- ii) In the face of likely opposition, FERC is likely to withhold a ruling on SPP's highway-byway proposal until it decides how it will deal with the same issues in the PJM docket
- iii) Conversely, FERC *might* be persuaded to act promptly and approve SPP's filing if it is clearly a product of a broader-based consensus and if there are only limited protests

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## THE COMPROMISE POSITION Recommendations

**The sponsors of the Compromise Position respectfully recommend that the SPP BOD take the following actions:**

### **1. Request that the RSC:**

- a) reconsider its October 2009 directive on cost allocation; and
- b) undertake further discussion and consideration of cost allocation issues, including the Compromise Position proposal, and either adopt the Compromise Position or develop an alternative regional/zonal cost allocation method; and
- c) develop (with assistance from the CAWG and RTWG) a meaningful Inter-zonal Cumulative Equity (ICE) methodology

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## THE COMPROMISE POSITION Recommendations

2. If the **RSC agrees to reconsider its directive on the cost allocation issue and develop a meaningful ICE provision, the Board should:**
  - a) direct SPP staff to refrain from filing the tariff provisions developed by the RTWG; and
  - b) monitor the process to make sure it does not veer off in a direction that jeopardizes the building of a true consensus around a new cost allocation method

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## THE COMPROMISE POSITION Recommendations

### ***Revised***

3. If the **RSC declines to reconsider its directive on the cost allocation issue, the Board should:**
  - a) instruct SPP staff to delay filing the tariff provisions (RSC proposal) developed by the RTWG until a more detailed/meaningful ICE provision and the ITP tariff language has been approved; i.e. no bifurcation of filings;  
or
  - b) if a bifurcation of filings is re-affirmed, and the filing is to proceed as presented w/o a more detailed ICE, then the BOD should:
    - i) refrain from endorsing the filing in accordance with the RSC directive to preserve its own cost allocation filing rights, and
    - ii) direct RTWG to develop a detailed/meaningful ICE provision with the ITP language

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Questions?

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