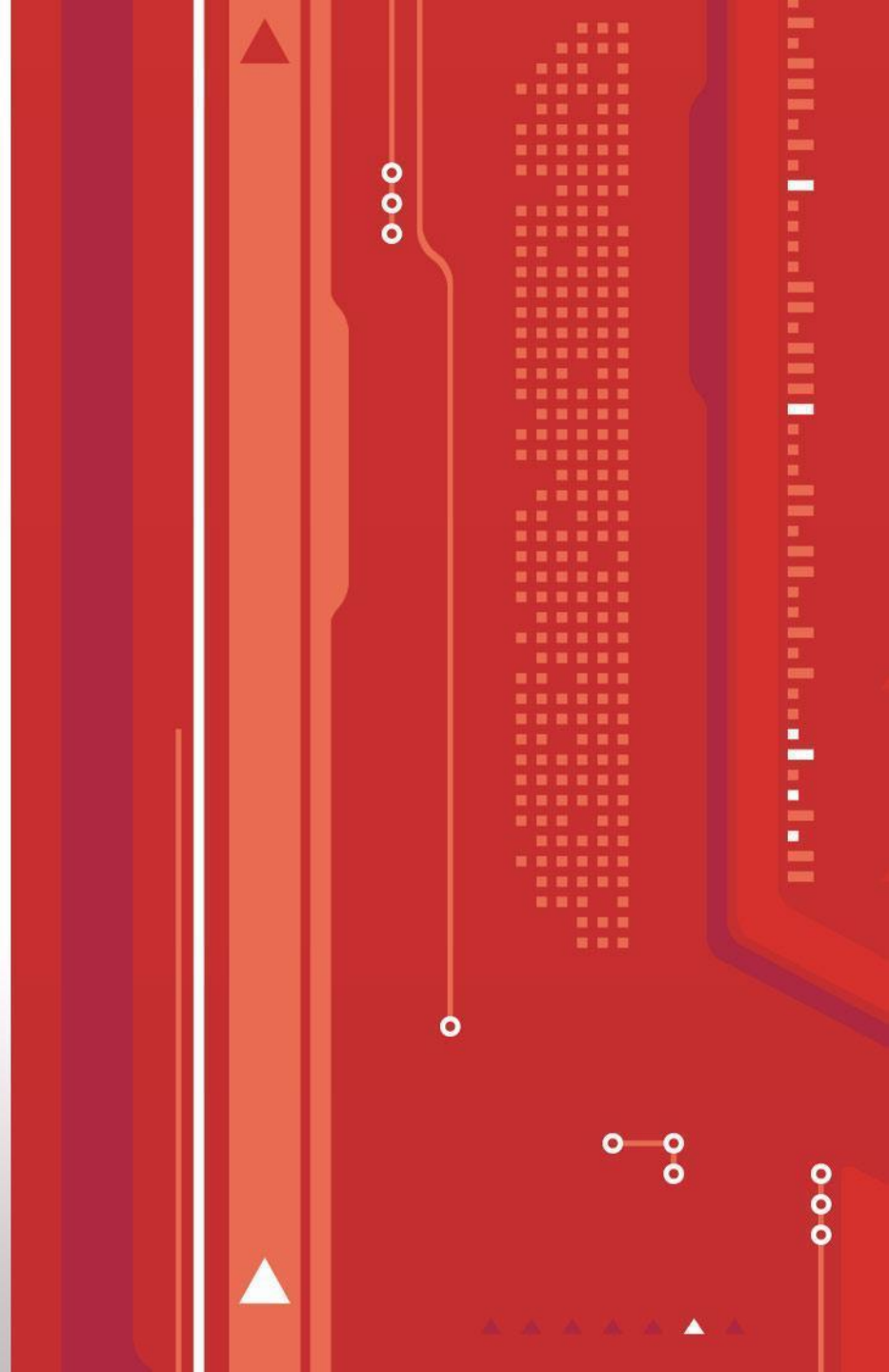


Cost Estimates

October 10, 2013

Brett Hooton



Outstanding Questions

- **Who provides the cost estimate?**
- **What level of confidence in cost estimate?**
- **Who pays for the DPP process?**
- **What level of transparency is required by FERC Orders and the SPP OATT?**
- **What is the timeline for filing with FERC?**

WHO PROVIDES THE COST ESTIMATE?

SPP Proposal

- **Cost developed independently by SPP and/or independent third party**
 - Detailed material list to be provided with the DPP
 - Cost estimate will be made public

SPP Proposal Rationale

- **Maintains transparent stakeholder process**
 - Continues to be an SPP developed portfolio instead of an SPP staff developed portfolio
 - Full vetting through SPP's working groups and the MOPC
- **All projects are treated equally and consistently**
 - Estimates all performed by an independent party
 - One estimate per project even if the same project is submitted by multiple developers
 - Projects submitted via a DPP treated the same as projects submitted without a DPP or developed by staff

SPP's Concerns with Proposed Alternatives

1. **Developer provided confidential estimate in the DPP**
 - **Significantly alters SPP's transparent stakeholder driven planning process**
 - **Unequal and inconsistent treatment of projects**
2. **Developer provided confidential estimate in the DPP**
 - **Unequal and inconsistent treatment of projects**

Alternatives create unequal treatment of projects

- With multiple DPPs for the same project the average cost would be used
 - Significantly higher or lower estimates would skew the average
- One developer may underestimate the cost
- Developer may be incentivized to over estimate some costs and underestimate others based on which project the developer would prefer to be selected

Example 1: Project A-B

Project Assumptions	
	Project A-B
SPP Est. Cost	\$100
Developer X Est.	\$95
Developer Y Est.	\$125
Est. Benefits	\$105

Average of developer provided estimates

SPP Proposal	
Cost	\$100
Benefits	\$105
B/C	1.05

Project selected with a B/C > 1.0

Alternative	
Ave Cost	\$110
Benefits	\$105
B/C	0.95

Project not selected due to a B/C < 1.0

Example 2: Projects C-D & E-F

Two projects proposed for the same issue

Project Assumptions		
	Project C-D	Project E-F
SPP Est. Cost	\$120	\$120
Developer X Est. Cost	\$110	N/A
Developer Y. Est Cost	\$150	\$110
Est. Benefits	\$130	\$125

Potential significant overestimate

SPP Proposal		
	Project C-D	Project E-F
Cost	\$120	\$120
Benefits	\$130	\$125
B/C	1.08	1.04

Project selected as preferred solution

Alternative		
	Project C-D	Project E-F
Ave Cost	\$130	\$110
Benefits	\$130	\$125
B/C	1.0	1.14

Project selected as preferred solution

Example 3: Projects G-H & I-J

Two projects proposed for the same issue

Project Assumptions		
	Project G-H	Project I-J
SPP Est. Cost	\$100	\$120
Developer X Est. Cost	\$100	N/A
Developer Y. Est Cost	N/A	\$80
Est. Benefits	\$130	\$125

Potential significant underestimate

SPP Proposal		
	Project G-H	Project I-J
Cost	\$100	\$120
Benefits	\$130	\$125
B/C	1.3	1.04

Project selected as preferred solution

Alternative		
	Project G-H	Project I-J
Cost	\$100	\$80
Benefits	\$130	\$125
B/C	1.3	1.6

Project selected as preferred solution

Decision Point

- **Who should develop the cost estimates?**
 - SPP proposes that the cost will be developed independently by SPP and/or independent third party

WHAT LEVEL OF CONFIDENCE IN COST ESTIMATE?

Conceptual Estimate

- **-50%/+100% level of confidence**
- **Developed by staff based off the DPP**
 - **Similar to how conceptual estimates are currently developed**
 - **Easier and quicker to develop than study estimates**
- **Used in the initial project evaluation**
 - **Typically the initial evaluation is based on determining whether the project addresses the identified issue and/or provides benefits to SPP**

Study Estimate

- **+/-30% level of confidence**
- **Developed by independently by staff and/or an independent third party**
 - **Based of the DPP**
 - **Utilize the detailed material list included in the DPP**
- **Longer to develop for more detailed result**
 - **Developed within 2 to 5 months after receiving the DPP's (estimate & depending on process)**
- **Used for project approval**
- **Baseline for the +/-20%**

Final Estimate

- **+/-20% level of confidence**
 - 20% bandwidth must be within the study estimate bandwidth
- **Estimate contained in the winning bid/response to the RFP**
 - Developed by the bidder

Cost Estimate Timeline 2015 ITP10

- **SPP will provide economic & public policy issues mid-March**
 - Stakeholders have 30 days to provide a Detailed Project Proposal (DPP)
 - 1 to 2 weeks for SPP staff to develop conceptual estimates
- **Provide reliability issues mid April**
- **Need study estimate by mid July**

*Based on current schedule and subject to change

2016 ITPNT Example Timeline

- **SPP staff to provide issues in May**
 - Provide 30 days for suggested solutions & DPPs
 - 1 to 2 weeks for SPP staff to develop conceptual estimates
- **Develop study estimates in September**
 - 60 days to develop estimate

Decision Point

- **SPP proposal**
 - **Conceptual estimate developed by SPP staff for screening**
 - **Study estimate developed independently by staff or independent third party**
 - **Final estimate taken from the cost estimate in the bid that is selected**

WHO PAYS FOR THE DPP PROCESS

Who Pays? Two Options

- 1. Paid for by the admin fee**
 - All costs for developing the cost estimate, evaluating the projects, and the approval of the projects is paid for through the admin fee
- 2. Paid for by a deposit required at the time of submitting the DPP**
 - Cost per DPP
 - Refundable in-part based on actual expenses

SPP Proposal

- **All costs associated with the DPP process to be paid for through the admin fee for the first cycle (2015 ITP10 and 2016 ITPNT)**
 - **A deposit will be considered at a future time when there is a better understanding of the actual cost associated with the DPP process**
 - **Uncertain whether FERC will accept requiring a deposit with the DPP**

WHAT AMOUNT OF TRANSPARENCY IS REQUIRED?

WHAT IS THE TIMELINE FOR FILING WITH FEREC

Timeline

- **Process needs to be in place before SPP provides the 2015 ITP10 issues in March**
- **SPP proposal requires Tariff change to account for the +/-20% cost estimate to come from the designated transmission owner's bid**
 - **No expected tariff changes for the DPP process**
- **January Board of Directors meeting may be too late for changes to be filed and go into effect by March**
 - **May require special Board of Directors meeting**