Minutes of Regional State Committee (RSC) for the Southwest Power Pool (SPP)
Teleconference Special Meeting on June 2, 2004 at 10:00 am

CALL TO ORDER.

Denise Bode, RSC President, called the meeting to order at approximately 10:06 am.

PRELIMINARY MATTERS.

a. **Declaration of a Quorum.** The following individuals were in attendance:

RSC Members:
President Denise Bode, Oklahoma Corporation Commission
Vice President Sandra Hochstetter, Arkansas Public Service Commission
Board Member Brian Moline, Kansas Corporation Commission
Mike Proctor, Proxy for Board Member Steve Gaw, Missouri Public Service Commission
Treasurer David King, New Mexico Public Regulation Commission
Secretary Julie Parsley, Texas Public Utility Commission

Associate Members and Non-Members:
Commissioner John Wine, Kansas Corporation Commission
Commissioner Robert Krehbiel, Kansas Corporation Commission
Nick Brown, CEO of SPP
Less Dillahunty, SPP
Stacy Duckett, SPP
Carl Morrow, SPP
Tony Ingram, FERC
Sam Loudenslager, Arkansas Public Service Commission
Richard House, Arkansas Public Service Commission
Pat Moser, Arkansas Public Service Commission
Don Low, Kansas Corporation Commission
Mike Peters, Kansas Corporation Commission
Larry Holloway, Kansas Corporation Commission
Tom DeBaun, Kansas Corporation Commission
John Bell, Kansas Corporation Commission
James Watkins, Missouri Public Service Commission
Lena Mantle, Missouri Public Service Commission
Ben Matallie, New Mexico Public Regulation Commission
Joyce Davidson, Oklahoma Corporation Commission
Kelli Leaf, Oklahoma Corporation Commission
Gary Walker, Oklahoma Corporation Commission
Ken Zimmerman, Oklahoma Corporation Commission
Ed Farrar, Oklahoma Corporation Commission
Jess Totten, Texas Public Utility Commission
Bridget Headrick, Texas Public Utility Commission

Walter Wolf, Stone, Pigman, Walther, Wittman, LC, outside counsel for the Louisiana Public Service Commission
Michael Deselle, AEP
Beth Martin, Entergy
Steve Owens, Entergy
Barry Warren, Empire District
Tom Tramueolk, New Energy Associates
Lori Net, OMPA
Osha Kirsten, EEI
Ken McClure, City Utilities
Richard Spring, KCPL
Mike McLaughlin
Walt Shumate, Consultant from Dallas
David Brian, East Texas Cooperatives

It was determined that a quorum was present.

b. Adoption of the April 26, 2004 Meeting Minutes.

Vice President Hochstetter noted that the document containing the full nine transmission expansion cost allocation principles needs to be attached to the minutes. Secretary Parsley stated that the document should be attached as Attachment A, as noted on page 6, but was inadvertently omitted from the email of the latest draft. Vice President Hochstetter also suggested that the text describing the motion concerning the Request for Proposal (RFP) for the Cost Benefit Study (CBS) should be moved to the end of the section on the CBS and that the RFP should remain confidential. It was noted by Joyce Davidson at the Oklahoma Corporation Commission that the minutes track the transcript. It was also noted that the transcript should be attached to the minutes.

Secretary Parsley moved that the April 26, 2004 minutes be adopted as modified consistent with the discussion. Treasurer King seconded. In a roll call vote, all voted aye.

c. Adoption of the May 12, 2004 Meeting Minutes.

Secretary Parsley moved to adopt the May 12, 2004 minutes as proposed. Treasurer King seconded. There were no objections, and the minutes were accepted by acclamation.

d. Update from Treasurer.

Treasurer King provided an update on budget revisions. The numbers in the draft budget were revised consistent with prior discussions. It was noted that the 2004 budget will be reiterated for 2005 because the IRS needs a two year budget. President Bode stated that the budget should be a work in progress that can be modified in the future in the event some estimates need to be adjusted.

Treasurer King moved to adopt the proposed budget (Attachment A). Secretary Julie Parsley seconded. All voted aye.

BUSINESS MEETING.

Previously discussed issues.

a. Report, discussion and vote on cost-benefit study RFP to be commissioned by the SPP RSC

Mr. Sam Loudenslager, with the Arkansas Public Service Commission, Chair of the Cost Benefit Task Force (CBTF), provided an update concerning the CBS and work of the CBTF. Chair Loudenslager noted that responses to the RFP are due June 7, and then the CBTF will have three weeks to work with the vendors to scope the CBS and finalize a contract. Chair Loudenslager reported that lawyers are still reviewing how to treat the confidential information that will be used in the CBS, and noted that there will be a call next week to discuss the various state rules and laws. The CBTF will get back with the RSC on how to proceed with respect to treatment of confidential information. Chair Loudenslager thanked the group for staff efforts, noting that the CBTF now has members from each RSC state commission staff.

b. Report, discussion and possible action with respect to policy concerning transmission upgrade and expansion cost allocation for the SPP

Mr. Mike Proctor, Proxy for Board Member Steve Gaw, with the Missouri Public Service Commission, provided an update on the efforts of the Cost Allocation Working Group (CAWG). First, Mr. Proctor discussed a document that provides a rating system for how funding mechanisms for the five categories of transmission expansion compare to the RSC principles. The rankings range from a spectrum of contradicts (ranking of 1) to being consistent with (ranking of 5) the principles. The CAWG did not request approval of this document by the RSC, but noted that it would be presented as background material at the June 9 transmission funding symposium.

Next, Mr. Proctor discussed a Key Issues document. Mr. Proctor made a correction to the last sentence in the Background section. Vice President Hochstetter suggested adding the following sentence to the end of Section A.1 to more directly answer the question: "The solution most likely lies in various combinations of cost apportionment to be determined on a project-by-project basis using distribution impact models and other relevant information." This suggestion was debated, and Jess Totten with the Texas Public Utility Commission questioned whether this would be done on a project-by-project basis or on a rule-type basis, noting that a project-by-project basis could potentially generate a large number of disputes. Ms. Joyce Davidson with the Oklahoma Corporation Commission agreed. Mr. Nick Brown with SPP stated that he did not view the project-by-project basis as being inconsistent with having certain categories that would fall into the application of an algorithm. Mr. Larry Holloway commented that he was not sure that the sentence responds to the particular question referenced in that paragraph. Mr. Proctor stated that the fundamental issue is whether any type of allocation procedure at all should be used, but if you do cost allocation, it has to be done on a project-by-project basis. Mr. Proctor was not sure if the exact model would need to be described, and noted that Mr. Less Dillahaunty with SPP was leading discussions on a particular model. Mr. Dillahunty described the model as a distribution impact model, and stated that he believed that the project-by-project language could serve to address the different types of upgrades rather than evaluating each individual project. Vice President Hochstetter noted that she intended a broader meaning. Based on the discussion, Mr. Totten withdrew his comments.

Vice President Hochstetter next questioned the response to B.1 on base plan expansions, asking whether there is a way to determine the likelihood of future benefits to various users of new network resources. Vice President Hochstetter noted that there should be a way to identify these future beneficiaries for new network resources, so that the current requester is not identified as the only entity that will receive a benefit. Mr. Proctor stated that this is a fundamental question, and that currently, new network resources are not included in the base plan expansions, but rather are included in requested upgrades (Issue D.1). Mr. Proctor noted that one issue currently being examined is whether new network resources should be included as part of the base plan expansion. Mr. Mike Proctor stated that a fundamental issue is whether base plant expansions should include something that is forward-looking and include the forecasts of load serving entities regarding their load growth and what new network resources are going to be needed to meet that load growth.

Vice President Hochstetter asked whether that needs to be included in the response, or whether it will be part of the discussion on June 9, or would the agenda for June 9 be based on the answers to these questions. Mr. Proctor noted that on June 9 they will only have 30 minutes for discussion which will only allow time for the top three issues. One of the three issues is how should new network resources be classified—as base plant, economic upgrades, requested upgrades, or something in between those.

Vice President Hochstetter stated that transmission upgrades are lumpy, take a long time to build, have a long life, and are expensive; therefore, you must look at the likely beneficiaries in the reasonably foreseeable future. Vice President Hochstetter commented that you should look at projected or likely retirements for existing generation sources that will be replaced by network resource additions and foreseeable changes in demographics or load shape. Mr. Larry Holloway noted that the problem with "likely" beneficiaries is that you can prejudice the market for that generation. For example, if you have a five year contract with someone to buy power, and they need transmission to receive that power, then what happens after that contract expires and the generation resource wants to sell to someone else?

Mr. Proctor noted that these are complex issues that still need to be worked through. Mr. Proctor noted that it is complicated by the fact that there are both energy and capacity benefits. President Bode noted that this is a discussion draft and a work in progress.

President Bode suggested that Vice President Hochstetter's recommendation be added to Section A.1, but the second point noted in B.1 be left out and be discussed further.

Mr. Less Dillahanty with SPP stated that the document will not be distributed until RSC gives direction. Mr. Dillahanty noted that these issues will be presented for discussion by Bruce Rue early in the day at the June 9 symposium and will be probed throughout the day.

Proxy Mike Proctor moved that the RSC go forward with the document, as amended to the sentence in the Background Section and with Vice President Hochstetter's addition to Section A.1, as an RSC working draft to be presented at the June 9 transmission funding symposium (Attachment B). Secretary Parsley seconded. There was no further discussion. There were no objections and the motion passed.

It was noted that a copy would be attached to the minutes and posted on the SPP website. Paper copies will also be available at the symposium.

NEW BUSINESS.

a. RSC policy issues/assignments.

Mr. Mike Proctor asked whether the RSC wants formal representation in the transmission planning process, noting the distinction between transmission planning and transmission funding. Mr. Proctor stated that the CAWG has focused more on funding issues, and to date, the states have not been involved in the SPP Transmission Assessment Working Group. President Bode noted that planning is absolutely related to cost allocation and funding and that it was resolved on the last conference call that the RSC wants to be involved in transmission planning and that people should start monitoring the process. President Bode suggested that the CAWG could be used as the forum to formally be more observant of the planning process and Mr. Proctor responded that the CAWG would not be upset with that approach. The CAWG will pursue the planning process and add it to their report.

b. RSC administrative issues/assignments.

There were no administrative issues or assignments.

c. Other

There was no other new business.

SCHEDULING OF UPCOMING SPECIAL MEETINGS OR EVENTS.

There will be a transmission planning summit and participant funding symposium on June 8 and 9. The informal RSC working group conference call for June 9 will be cancelled due to the symposium.

There will be an informal RSC working group conference call on June 16.

The RSC is scheduled to meet in person in Kansas City on July 26. That will be followed by the SPP Board meeting on July 27.

The RSC is scheduled to meet in person in Little Rock on October 26 in the afternoon. President Bode will send an email with the exact time and details at a later date.

SCHEDULING OF NEXT REGULAR MEEING.

The next regular meeting of the RSC will be determined at a later date. It was noted that a RSC meeting will be needed to consider the CBTF recommendation for the vendor before the July 26 meeting in Kansas City. Chair Loudenslager noted that a teleconference meeting will be needed prior to July 1.

OTHER ITEMS.

Mr. Nick Brown noted that there is a SPP Board meeting this afternoon with an action item from the Finance Committee on the RSC Budget. Treasurer King will be on the call to answer any potential questions.

Secretary Parsley received clarification that the minutes are to be posted to the SPP website.

ADJOURN.
Having no other business, Treasurer King moved to adjourn. Vice President Hochstetter seconded. There were no objections. The meeting adjourned.

____
Secretary, Julie Parsley

Expense Category	SPP Regional State Committee Estimated FY Budget 2004 (July 1, 04 - June 30, 05)	SPP Regional State Committee Estimated FY Budget 2005 (July 1, 05 - June 30, 06)	
Travel			
RSC Meetings Day Before SPP BOD	$ 21,120	$ 21,120	Travel Cost Guidelines:
Strategic Planning Committee	7,040	7,040	Meals - $45/day
Transmission Working Group	10,560	10,560	Airfare - $500/roundtrip w/in SPP footprint
Markets and Operations Policy Committee	10,560	10,560	Rental Car - $70/day
Regional Tariff Working Group	10,560	10,560	Lodging - $130/night
Other Inter-regional Travel	1,875	1,875	Parking - $10/day
Other SPP Meetings	10,560	10,560	Mileage - $0.375/mile
Total Travel	**72,275**	**72,275**	
Administrative			
Printing	5,000	5,000	
Banking Charges	1,200	1,200	Meeting Cost Guidelines:
Annual Audit	10,000	10,000	Lunch - $25/person
Postage/Freight	1,200	1,200	Continental Breakfast - $10/person
Insurance, liability (6 board members)	1,200	1,200	Afternoon Snack - $150 total
Workers Comp	-	-	Beverages - $12/person
Bond for Treasurer ($200,000)	100	100	Meeting Room (<20 people) - $250
Meeting transcript/minutes	1,500	1,500	Meeting Room (>20 people) - $650
Legal	100,000	100,000	Supplies (<20 people) - $350
Total Administrative	**120,200**	**120,200**	Supplies (>20 people) - $700
			A/V Equipment
Meetings			Conference Phones
RSC Board Meetings (20 attendees x 4 meetings)	8,800	8,800	Internet Access
RSC Working Groups (10 attendees x 12 meetings)	13,200	13,200	Teleconference: 25 ports, 2 hr meeting
RSC Weekly Teleconference (26 events)	8,190	8,190	
Total Meetings	**30,190**	**30,190**	
Total Expenses	**$ 222,665**	**$ 222,665**	

WORKING DRAFT DOCUMENT

Key Issues for SPP Transmission Funding
SPP RSC Cost Allocations Working Group

Background

The proposal for funding transmission expansion that has been developed by the SPP staff would establish several categories of proposed transmission expansion, and contemplates that different funding mechanisms would be used for each category. In the discussions of the proposal at the mini-symposium on May 5, there was discussion both of which projects fall into which category and what the appropriate funding mechanism is for each category. The proposed categories are:

1) Base plan upgrades—projects needed for reliability;
2) Economic upgrades—projects identified by the SPP as having an economic benefit;
3) Requested upgrades—projects identified by a market participant as having an economic benefit;
4) Interconnection upgrades—projects to safely interconnect a new generator; and
5) Merchant transmission-- projects to safely interconnect a merchant transmission facility.

Below are key issues raised by parties at the mini-symposium and suggested responses regarding how the RSC principles might apply to these issues.

A. General

1) When you start assigning transmission costs to particular market participants, doesn't this turn into a barrier to entry so that once the allocation is approved, you strengthen the position of the incumbent? Isn't this barrier to entry a form of market power?

Response: The principles developed by the RSC as guidelines for the transmission funding rules include valid competing principles that contradict each other. For example, rolling transmission expansion costs for new network resources into a system-wide rate would be consistent with **Principle 5** (encouraging competitive supply of electricity), while assigning transmission costs on a "beneficiaries pay" or "cost causer" basis would be consistent with **Principle 1** (equity) and **Principle 4** (efficiency). If a market participant were able to get the SPP to authorize the construction of an expensive transmission project that provides few benefits to other market participants, the equity principle is neglected. In addition, if transmission policy is not used to direct generation development to favorable sites on the grid, where the generation can be incorporated with minimal transmission investment, the efficiency principle is neglected. On the other hand, if market participants are required to pay the entire cost for all projects to access new generation resources, their options in the generation market will be constrained, and the competition principle is neglected. The configuration of the transmission network is an important factor that determines the degree of companies' market power in a region. The transmission network and the rights that various customers have to use it define customers' capability of accessing generation suppliers. To the extent that the transmission funding rules are entirely based on "beneficiaries pay" or "cost causer" rules, it will likely be more difficult for market participants to get expansions of the network constructed, and will likely increase issues related to market power. How much emphasis is given to each of these principles for each kind of upgrade is a key policy determination for the SPP RSC. The solution most likely lies in various combinations of cost apportionment to be determined on a project-by-project basis using distribution impact models and other relevant information.

B. Base Plan Expansions:

1) The transmission-dependent utilities (TDUs) have a problem with the concept of the base plan only including "committed resources," in that there is bias in favor of the vertically integrated utilities because they are less dependent on purchase power contracts to meet their power requirements. The concern is that if the TDU is paying for transmission service and it has a change in designated resource in connection with a purchase power contract with a different or additional supplier, it then may have to pay additional transmission costs to change its designation of a network resource.

Response: Under the proposed structure in the SPP white paper, a "committed resource" is one that has already been designated by a market participant as a designated network resource. To obtain SPP approval of a designated resource, a load-serving entity must submit a request for approval by the SPP for new network resources as a requested upgrade. A customer's new network resource might be either an existing generation resource that was not previously designated as a network resource for the customer or a new generator. If transmission upgrades were required to change a designated resource, **Principle 1** (equity) would require the beneficiary to pay those costs. However, **Principle 2** (equity) would establish a limit to what the beneficiary must pay: the additional cost would not exceed the value of the benefit it receives in additional transmission service. Finally, **Principle 5** (encouraging competitive supply) would require that the costs of the expansion be funded more broadly, so that other transmission customers contribute to the cost of the upgrade. An additional matter that is not explicitly addressed in the principles developed by the RSC but that is raised by the TDUs is whether the SPP proposal treats TDUs fairly.

2) Obsolete transmission facilities – should upgrades of obsolete facilities be include in base plan facilities or should they be included as updates to the transmission zones embedded costs?

Response: The fundamental reason for upgrade of obsolete transmission facilities is to maintain reliable service, but often such upgrades also involve improvements in transmission capability and reductions in transmission losses. **Principle 6** (reliability) requires that such upgrades be made and the costs be charged to system customers. **Principle 5** (competitive supply) may also support the upgrading of transmission facilities to maintain broad access to suppliers. With respect to the allocation of the costs of an upgrade to obsolete transmission facilities, **Principle 3** (equity) requires consistency between the pricing of existing transmission facilities and the pricing of new transmission facilities. It would be unfair to allow an entity with low-cost transmission facilities due to age and obsolescence to benefit from upgrades by passing its upgrade costs on to other users of the system. There are several possible ways to address the fairness issue. One is to apply the same principles and thus pricing to existing facilities that is applied to new facilities. Another is to assess the degree to which a transmission provider has a system that contains obsolete facilities and use this assessment in assigning transmission costs on a zonal, rather than regional, basis.

C. Economic Upgrades:

1) The SPP proposal includes three options for funding economic transmission expansion. Economic Upgrades are those additions and upgrades identified by the SPP as cost-effective means to reduce bulk power system costs borne by load-serving entities. These projects would be participant funded, either by the sponsor or beneficiaries identified by the SPP. There is a concern that if funding is on a voluntary basis, beneficiaries will be unwilling to pay their allocated share of the costs of the transmission expansion?

Response: The determination of net benefits of various projects can be made either by conducting studies of the impact of the project on the cost of power at various points in the region or by using broad allocation principles to allocate costs to particular customers, the zone, or the region as a whole. Where a transmission expansion project clearly provides economic benefits, some of the RSC principles suggest that the assignment of costs to beneficiaries should be mandatory, not voluntary. Such an approach is consistent with **Principle 7** (allocation of costs based on benefits).

D. Requested Upgrades:

1) As presented in its white paper, requested upgrades are transmission projects requested by a market participant that the SPP concludes do not provide sufficient net benefits to be funded as economic upgrades. Under the SPP proposal volunteers would be sought to share in the cost of a requested upgrade, or the upgrade could be funded entirely by the sponsor. However, a concern was raised that the SPP would continue to require requests for SPP approval of new network resources be classified as requested upgrades.

Response: The issue is whether or not approval of new network resources should be treated on an individual basis as a requested upgrade or included in either the base plan or possibly as an economic upgrade. Fundamental to this issue is that load-serving entities make the decisions regarding new network resources and need to have information regarding the possible transmission costs associated with alternative new network resources on a timely basis. In addition, this issue raises concerns related to **Principle 2** (equity) where the requestor is asked to pay for upgrades that are beyond what are required to provide the transmission service for the new network resource. If this occurs, then **Principle 3** (equity) raises a concern regarding free riders on the excess transmission capability that the load-serving entity has funded. Because of these concerns, the classification for new network resources needs significant further discussion.

2) A concern was raised regarding the issue of free riders on transmission expansions that were funded through requests – do they have to pay?

Response: All of the alternatives that involve sponsor payment for a project or soliciting volunteers to help pay for a project involve the possibility that the sponsor will fund a project and that others that do not contribute or do not contribute enough will get benefits that they do not pay for (free riders). To the extent that this possibility is limited to projects that the SPP determines are not economical, that is, do not provide broad benefits to the region, the impact is minimized. Still, there could be projects that a sponsor derives enough benefit from that it will pay for it, but that also provides benefits to others in the market. This approach is consistent with **Principle 8** (voluntary economic upgrades) but not entirely consistent with the equity principles (**Principles 1, 2 and 3**). In order to deal with inconsistency, transmission usage charges could be automatically assessed by the SPP for those who benefit from the use of additional capability provided by the project. This approach would be consistent with **Principle 1** (equity). The distribution of revenues from the sale of transmission or the automatic transmission charges back to those who funded the project would be consistent with **Principle 2** (equity), and would minimize free riders, consistent with **Principle 3** (equity).

E. Supplemental Requests for Interconnection:

1) Should sudden load growth (a large load that was not anticipated), not included in the base plan but requires transmission upgrades, be included as an interconnection?

Response: Projects to address load growth would ordinarily be a part of the base plan, but the two-year planning cycle may make it difficult to deal with unexpected events. This is an issue that probably warrants additional discussion between the Cost Allocation Working Group and SPP staff.

F. Merchant Transmission Facilities:

1) If a merchant transmission facility is not a DC facility, can SPP be sure of who is using the facility?

Response: The assumption here is that usage can be controlled only on DC facilities. There is a need for additional discussion on the question of control.

2) Will merchant transmission facilities have control of the use of the facility?

Response: The basis of this question relates to whether or not those who did not pay for the use of merchant transmission facility could be prevented from use of that facility. As stated in the previous response, this issue needs additional discussion.