



Southwest Power Pool, Inc.

**TRANSMISSION EXPANSION
COST ALLOCATION PROPOSAL**



TRANSMISSION EXPANSION COST ALLOCATION IN SPP

Draft Proposal

I. DISCUSSION OF THE STRAWMAN PROPOSAL

TO BE DEVELOPED

II. DESCRIPTION OF THE STRAWMAN PROPOSAL

A. Proposed Cost Allocation for New Transmission Upgrades

Investments in the transmission system will be classified into two categories, Base Funded and Participant Funded, with respect to how the costs of those investments will be recovered. Base Funded projects will be those projects identified by SPP as necessary to meet the SPP reliability standards. All other projects will be Participant Funded projects.

1. Base Funded: For Base Funded upgrades, the cost of a new transmission upgrade will be recovered X% through a single region-wide SPP rate and (100-X)% through the zonal rate(s) of the zone or zones which benefit from the upgrade.

[Note: There is an area of agreement that the cost allocation for new transmission upgrades that are based funded will have a regional component and a zonal component. The determination of the regional component and the zonal component will be developed in parallel with the straw proposal. The method for determining regional versus zonal facilities/cost allocation may end up being based on a flow-based method, a functional test method or on fixed percentages. SPP will perform some “basic” analysis of the “split” between regional and zonal facilities using the Xcel proposal, the AEP proposal and an analysis similar to the one previously performed by SPP that looked at voltage level of future investments as well as the response of such upgrades to regional transmission service. The results of this analysis will provide some quantitative input to this determination.]

2. Participant Funded: By definition, a project that is not Base Funded will be a Participant Funded project. Depending on the category of upgrade, the cost of a Participant Funded transmission upgrade would be recovered either:

- (a) (100-Y)% through a single region-wide SPP rate (partially Base Funded) and Y% directly (partially Participant Funded) from the party or parties that volunteer to pay for such upgrades; or
- (b) 100% directly from the requestor.

B. Proposed Rate Design

Under the strawman proposal, transmission customers will pay for transmission service based on a three-part rate design, comprising a Residual Charge, a Universal Rate and a Zonal Rate. In addition, some customers could be subject to a Participant Funding Charge for any Participant Funded upgrades.

1. Residual Charge: Costs of transmission facilities in service prior to the target implementation date for the new cost allocation approach will be recovered as they are today through Residual Charges based on the Annual Transmission Revenue Requirement (ATRR) in Attachment H to the SPP OATT, which will remain a zonal charge. Costs of upgrades to transmission facilities in the 2005 base plan required to be in service to meet SPP and NERC reliability standards prior to the target implementation date for the new cost allocation approach would also be recovered through the existing zonal Residual Charges. The ATRR for such upgrades would be added to the ATRR of the zones in which the upgrades are located in Attachment H to the SPP OATT. The ATRR associated with the Residual Charge would decline over time due to retirements and the depreciation of a fixed set of facilities.

Transmission upgrades identified after the target implementation date for the new cost allocation approach will be recovered either through the Universal Rate and Zonal Rate or through Participant Funding Charges.

2. Universal Rate: For Base Funded upgrades X% of the costs of the upgrades will be recovered through a single universal (postage stamp) SPP rate. For certain categories of upgrades that will be partially Participant Funded, (100-Y)% of the costs of the upgrades will be recovered through a single universal (postage stamp) SPP rate. The billing determinants will be the aggregate of billing determinants for the zonal rates.
3. Zonal Rate: For Base Funded upgrades, the remaining (100-X)% of the costs of the upgrades will be recovered through a zonal rate(s) of the zone or zones which benefit from the upgrade.

4. Participant Funding Charge: Costs associated with Participant Funded projects will be recovered either in whole or in part through a Participant Funding Charge assessed to the parties that voluntarily agreed to pay for the upgrade or that requested the upgrade.
- C. Classification of New Transmission Upgrades for Cost Allocation and Rate Design Purposes
1. Base Funded Upgrades: Base Funded upgrades will comprise those upgrades included in and constructed pursuant to the SPP Base Transmission Expansion Plan¹, including the reliability upgrades required to support the following²:
 - (a) Service for all existing Network Resources serving load on a long-term (\geq one year) basis.
 - (b) Existing and new long-term firm Point-to-Point service to serve loads located within the SPP footprint that include Section 2.2 rights under the SPP OATT.³
 - (c) Existing long-term firm Point-to-Point service through the SPP footprint or out of the SPP footprint that include Section 2.2 rights under the SPP OATT.
 - (d) Service for changed or newly designated Network Resources. There are four types of facilities found in the SPP 10 year planning model: 1) Existing facilities; 2) Planned Facilities; 3) Proposed Facilities; and 4) Exploratory Facilities. The Base Funded Upgrades will only include newly designated Network Resources that are Planned or Proposed.
 - (e) Service for Grandfathered Agreements.
 2. Upgrades Subject to Y% Participant Funding: Such upgrades will include economic expansion facilities that are constructed pursuant to the SPP Regional Transmission Expansion Plan that is approved by the SPP Board;

¹ The fundamental objective of the Base Transmission Expansion Plan is to ensure that the projected native load growth and existing firm long-term point-to-point transmission service can be met reliably.

² The transmission planning and approval process involves the use of discretion by the SPP Board in deciding which projects to fund, based on the needs they would address, the costs and benefits, and the capital available for transmission expansion. Criteria may be developed to guide the Board's discretion, such as assigning a high priority to reliability projects, but the Board would need to decide whether to fund any proposed base-funded project.

³ The FERC policy is that long-term firm point-to-point transmission service is at the same priority as network service provided from Designated Network Resources. For purposes of reliability evaluations, SPP treats these two service types as comparable [and includes both in the base plan].

Y% of the costs for such upgrades will be recovered directly from the parties that volunteer to pay for the upgrades and (100-Y)% through a single region-wide SPP rate.

In essence, the requirement here is that market participants that benefit from an economic upgrade will “vote” for that upgrade by funding a “significant” portion (Y%) of the project.

3. Upgrades Subject to 100% Participant Funding: “But for” upgrades constructed in order to satisfy two categories of transmission service requests will be subject to full Participant Funding, such that SPP will directly assign full cost recovery responsibility for the upgrades to the requestors. Upgrades in this set are:
 - (a) Network Upgrades required and constructed to satisfy a request for Network Resource Interconnection Service or for Energy Resource Interconnection Service;⁴ and
 - (b) Network Upgrades required and constructed to accommodate through and out Point-to-Point transactions.
- D. Property Rights for Upgrades that are Participant Funded in Whole or in Part [Place holder. To be developed.]

The SPP has filed with FERC Attachment Z that provides for future aggregation of transmission service requests. This aggregation includes a provision which will provide Transmission Customers with credit for any charges greater than the base rate for either network or point-to-point service. The credits will be paid to the Transmission Customer on a dollar-for-dollar basis with interest until the eligible credit amount is refunded. These credits are based on new transmission usage of the incremental facilities the Transmission Customer has supported. If at some time in the future, the transmission upgrades are rolled-in to rates, the Transmission Customer is eligible to receive the outstanding balance of the credits due.

- E. Proposed Cost Allocation for Upgrades to Resolve Pre-Existing Base Case Overloads

As indicated in Section II.B.1., costs of upgrades to transmission facilities in the 2005 base plan required to be in service to meet SPP and NERC reliability standards prior to the target implementation date for the new cost allocation approach will not be Base Funded. Such costs will be

⁴ Order 2003A provides for transmission service credits under Article 11.4 of the Large Generator Interconnection Agreement. At the end of five years the Transmission Provider may either: (1) reimburse the Interconnection Customer for the remaining balance of the upfront payment for creditable facilities, plus accrued interest, or (2) continue to provide credits to the Interconnection Customer until the total of all credits equals the Interconnection Customer’s upfront payment, plus accrued interest. The costs of non-network facilities required and constructed to satisfy a request for interconnection service are directly assigned to the requester and are not subject to any crediting mechanism.

recovered through the existing zonal charges in the same manner that the costs of existing transmission facilities are recovered today. Costs of upgrades to transmission facilities in the base plans for subsequent years required to meet reliability standards will be Base Funded and the associated costs will be recovered as proposed here.

Strawman Proposal Summary Table

	Existing Residual Charge	Universal Rate	Zonal Rate	Directly Assigned to Requestor or Volunteers
Existing Facilities	100%			
Base Funded (reliability upgrades)		X%	(100-X)%	
Network Upgrades required for Network Resources (\geq one year)		X%	(100-X)%	
Network Upgrades required for existing and new long-term firm P-to-P service for loads located within the SPP footprint that include Section 2.2 rights		X%	(100-X)%	
Network Upgrades required for existing long-term firm P-to-P service through or out of the SPP footprint that include Section 2.2 rights		X%	(100-X)%	
Service for changed or newly designated Network Resources		X%	(100-X)%	
Service for Grandfathered Agreements		X%	(100-X)%	
Partial Participant Funding		(100-Y)%		Y%
Economic expansion facilities in the regional plan approved by the SPP Board		(100-Y)%		Y% to the party or parties that volunteer
Full Participant Funding				100% to the requestor
Network Upgrades required “but for” the provision of Network Resource Interconnection Service or for Energy Resource Interconnection Service				100% to the requestor
Network Upgrades required “but for” the provision of long-term firm P-to-P service for through and out transactions				100% to the requestor
Direct Assignment				100% to the requestor
Non-network facilities required for the provision of interconnection service				100% to the requestor