

Summary Transmission Expansion Cost Allocation Proposal

for the
SPP RSC
September 8, 2004

Overview of Straw Proposal on Cost Allocation for Transmission Upgrades

- Base funded upgrades
 - Upgrades necessary to meet reliability criteria and projected load growth in region
- SPP approved economic upgrades
 - May be partly voluntarily funded and partly rolled into rates
- Other requested upgrades
 - Upgrades requested by and paid for by one or more parties

Areas of Agreement on Cost Allocation

1. Base Plan Upgrades
 - Regional/zonal cost allocation approach
 - X% through a single region-wide SPP rate
 - 100-X% recovered through the zonal rate of zone or zones which benefit from the upgrade
2. SPP approved economic upgrades
 - Y% directly from the party or parties that volunteer to pay for such upgrades
 - 100-Y% through a single region-wide SPP rate
3. Participant funded
 - Requested upgrades funded 100% directly from the requestor; i.e., no change from today.

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RSC Guidance Required on Several Key Issues

1. Base Funding Issues
 - a. What level of flexibility, if any, should transmission customers have in resource designations in the base plan?
 - b. What percentage of upgrade costs (X%) to be allocated to region-wide rate?
 - c. How should the remaining portion of costs be allocated among the zones?
2. Economic Upgrade Issues
 - a. Percentage of cost of economic upgrades to be allocated to region-wide rate (Y%).
 - b. What rights does a Participant receive for voluntarily funding non-based funded projects?

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1.a. Base Funded Upgrades Flexibility in Designating Network Resources

- All stakeholders agree Base Plan must be developed to meet reliability requirements and projected load growth
- Clear split over the scope of the Base Plan and treatment of designated network resource change requests. Options include:
 - Option 1 – Base plan should include transmission customer requests to change designated resources to meet their changing supply requirements
 - Option 2 – Base Plan should be developed for existing transmission service and projected load growth; changes to designated network resources should not be in Base Plan
 - Option 3 - Same as Option 1 except that transmission customer must demonstrate that DNR change meets certain guidelines (e.g. level of commitment to resource, long-term nature, etc.)
- CAWG requires direction from RSC on preferable option

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1.b. Base Funded Upgrades X% in Region-wide Rate

- What percent of BPF costs should be assigned as regional?
 - 10% or less via Transfer Reserve Margin Test
 - 25% via SPP 3% Transfer Test
 - 33% via SPP Megawatt-Mile Loop Flow Test
 - 50% via Sunflower Proposal
 - 100% via TDU Network System Proposal
 - % could vary by voltage level via SPP Megawatt-Mile Loop Flow Test

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1.c. Base Funded Upgrades Allocation of (1-X)% to Zones

- Choice between two proposed flow-based tests and current practice
 - AEP Test: those zones that benefit from economy transactions as measured by net imports.
 - SPP Test: those zones whose megawatt-mile use of the existing system decrease from the addition of a system upgrade.
 - Status Quo: Cost assigned to the zone in which the facilities are located.

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2.a. SPP Approved Economic Upgrades Y% Voluntarily Funded

- Projects would require a certain level of voluntary funding (Y%) before the remaining portion is funded by the region.
 - Should Y% be determined as a policy matter to represent strong support from market participants for the project – say 2/3rds or 3/4ths voluntarily funded;
 - Should Y% change with the strength of the economic benefits that are expected to result from the upgrade; or
 - Should Y% be low to facilitate completion of projects that provide energy benefits?

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2.b. SPP Approved Economic Upgrades Participant Rights

- Should a crediting policy analogous to Order 2003-A be adopted for participant funded projects; or
- Should participant funded projects be treated as directly assigned costs with no credits back to participant?