Details
Transmission Expansion Cost Allocation Proposal

from the

SPP CAWG

September 8, 2004

Structure of the TF Proposal

- Base-Funded Projects
  - Based on Reliability Criteria and Modeling
- Economic Upgrades
  - Based on Energy Cost Savings
- Requested Upgrades
  - Based on Transmission Customers' requests
- Generation Interconnection
  - Based on request from Generators

A. Broad Areas of Agreement for Base-Funded Projects (BFP)

1. BFPs should include load growth with planned and proposed network resources within certain limits.
2. Costs for BFPs should be included in rates.
3. Costs included in rates for BFPs will be allocated X% to a region-wide rate (universal charge) and (100-X)% to zonal rates.
4. Upgrades to meet existing reliability requirements prior to the start of this new policy should be included in the zonal rates of the zone in which the upgrades are needed.

A.1. Inclusion of Load Growth & Network Resources in Base-Funded Projects

- Meets the need for competitive supply for generation (Principle 5) by allowing load-serving entities (LSEs) to plan for long-term resources through competitive bidding and having transmission available for those resources.
- Remaining Issue
  - CAWG requested suggestions on limits to be placed on the ability of a LSE to change its designation of a network resource. The limit that was most discussed was the length of time for which the generation resource would be a designated network resource by the LSE.
  - Also discussed was a limit on the amount or proof of capacity rights that could be designated as network resources relative to load to prevent gaming between base-funded and economic upgrades.
  - Finally, a concern was discussed regarding the lack of limits on the location of designated network resources.
  - Absent specific limits, the proposal requires the approval by the SPP Board of all Base-Funded Projects. This would protect against allowing an LSE to designate a resource that would have high costs and for which there are minimal benefits to the region
  - RSC may want to develop recommendations to the SPP Board regarding limits to place on designated resources.

A.2. Inclusion of Costs for BFP in Rates

- When the costs of projects are assigned directly to those requesting a new network resource (current SPP practice), the requestor ends up paying for more transmission expansion than is needed and must pay for it as "and" pricing. By including most of the cost for BFPs in rates, we avoid this inequity and meet principle 2. To the extent that Principle 6 includes the goal that Transmission Owners recover their costs in rate, inclusion of costs for BFP in rates meets this goal.
- Keep in Mind:
  - New network resources are designated as network resources by the load-serving submitting a request to SPP.
  - When a new generation resource is designated as a network resource, the load-serving entity must request generation interconnection service for that resource and there could be some transmission upgrades associated with that interconnection.

A.3. Cost Allocations & Rate Design for BFP

- The costs being included in rates are first assigned between regional and zonal. To meet principle 1, he who benefits should pay, this assignment would be based on an evaluation of the portion of the SPP system that provides regional benefits.
- Remaining Issue: 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

A.3. Cost Allocations & Rate Design for BFP (continued)

- The zonal portion of those costs are then allocated to the various zones based on a beneficiaries test. This meets Principle 1 – he who benefits should pay.
- Remaining Issue: Choice between two proposed flow-based tests
  - 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.

A.4. Upgrades to Meet Existing Reliability Issues

- Require transmission owners to make the upgrade necessary to meet the reliability standards for 2005 and include those costs in the zones where the upgrades are made. This is generally consistent with the RSC equity principles.

B. Broad Areas of Agreement for Funding of Economic Upgrades

1. A transmission funding policy is needed that will encourage rather than discourage economic upgrades to be built. In part this is accomplished by the elimination of "and" pricing.
2. It is unrealistic to require 100% of economic upgrades to be funded by those volunteering to fund these projects.
3. Those funding economic upgrades must have specific rights to benefits that result from the project.

B.1. Encouragement of Economic Upgrades and the Elimination of "And" Pricing

- The elimination of "and" pricing will help to meet Principle 5 – to encourage competitive supply for generation.
- Remaining Issue: Whether economic upgrades should be mandatory or voluntary.
  - At the extremes are the views that all economic upgrades should be mandatory versus all economic upgrades should be voluntary.
  - Intermediate positions:
    - Projects with clear and significant benefits should be mandatory. Mandatory would require a determination of who benefits in order to allocate the costs of the upgrade among multiple entities per Principle 7.
    - All projects should require a certain level of voluntary funding (Y%) before the remaining portion is funded by the region. This is what is reflected in the strawman proposal and discussed on the next slide.

B.2. Require Less Than 100% Funding for Economic Upgrades.

- The strawman proposal required Y% of any economic upgrade to be voluntarily funded and the remaining (1-Y)% to be rolled into a region-wide, postage-stamp rate..
- Remaining Issue: What is Y%?
  - Should Y% be determined as a policy matter and 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?
  - Should Y% be low, to facilitate completion of projects that provide energy benefits?

B.3. Specific Rights for Those Who Are Voluntarily Funding Economic Upgrades.

- Voluntary Funding of Economic Upgrades would occur in conjunction with transmission customers' requests for firm point-to-point transmission service.
  - Such service would be granted under FERC "or" pricing, where the service is priced at the higher of the cost of the upgrade compared to the embedded cost rate for the service.
  - Participants voluntarily funding economic upgrades would be entitled to a share of revenues from additional transmission service that SPP is able to sell because of the upgrade.
  - Participants voluntarily funding economic upgrades would be entitled to a refund of any excess paid above embedded cost for the firm point-to-point transmission service for which they have not received revenue credits.
- Remaining Issues
  - See next slide

B.3. Specific Rights Continued

- Remaining Issues
  - Should revenue credits come only from the sale of point-to-point service or should those taking network service also be required to make a contribution for their use of the facilities?
  - If (1-Y)% of economic upgrades are funded by a region-wide postage stamp rate, should those paying that rate also be entitled to revenue credits?
  - When should the refund of the excess above the embedded cost for point-to-point transmission service net of revenue credits be paid?
  - If a portion of economic upgrades are used in future years to provide network service for load growth and added designated resources, how should this be taken into account?

C. Broad Areas of Agreement for Requested Upgrades

- By definition Requested Upgrades are Voluntary.
- Facilities not included in economic upgrades but are required for a requested upgrade are 100% voluntarily funded.
- Voluntary funding of requested upgrades that are not economic upgrades will have the same rights as voluntary funding of economic upgrades.

D. Broad Areas of Agreement for Generation Interconnections

- Costs of facilities that are needed and are only used by the generator requesting the interconnection are directly assigned to the generator and are not given revenue credits are refunds.
- Costs for network upgrades that are not needed “but for” the interconnection are subject to 100% participant funding.
- The costs of “but for” upgrades are given credits for any subsequent transmission service taken.
- At the option of the transmission provider the remaining balance and accrued interest is payable to the generator.