MEMORANDUM

To: SPP/CAWG/RSC

From: Kansas Municipal Utilities

Re: KMU Comments on CAWG's Strawman Proposal

Date: September 3, 2004

KMU wishes to begin by again expressing its appreciation to all involved for organizing and conducting a very productive, open and focused stakeholder process in an effort to vet the issues, allow all interested parties a meaningful opportunity to express concerns and offer proposals, and in order to try to develop a policy that all could accept. The appreciation is underscored by recognition of the short amount of time afforded to SPP, the RSC and stakeholders by the FERC's order. KMU is also very impressed by and appreciative of the serious thought, hard work and undoubtedly significant time investment of the involved individuals from SPP, the CAWG and RSC representatives.

Overall, KMU is at this juncture very supportive of the CAWG's strawman proposal, and urges the CAWG to recommend a policy substantially similar to the strawman to the RSC, with strong recommendation for its adoption by the RSC and subsequent recommendation to the SPP Board. As KMU understands the strawman and related discussions and explanations, KMU supports the strawman because it incorporates, among other things, features that KMU believes are essential elements to a fair, balanced and workable policy. These essential elements were stated in KMU's "Critical Comments" previously submitted to the CAWG, and include, among other things, the following:

1. Recognition that the ultimate focus should be on service to native load in the SPP footprint;

2. Recognition that native load service that switches from grandfathered agreements and/or behind the meter generation should not be treated differently than a new or changed designated network resource or long-term point to point reservation;

3. Avoidance of too much emphasis on "participant funding" while still recognizing that certain upgrade costs should be borne by those seeking and benefiting from certain types of upgrades (assuming the "split" mechanism does not run counter to the apparent intent of the strawman);

4. A policy that minimizes cost shifts while recognizing a regionalization concept by maintaining existing facilities costs in the Residual Charge but regionalizing upgrade costs as proposed in the strawman. (In this regard,

the strawman follows a concept used by PJM and under strong consideration by the Midwest ISO, which is essentially to maintain a license plate or zonal approach to existing facility costs while splitting new facility costs between zonal and regional charges, based on the mechanism or criteria employed by each RTO.

5. The intention to provide property rights to those bearing a participant funding obligation (subject to development of more detail);

6. A policy that is not unduly complicated or expensive to administer; and,

7. A policy that should provide clarity, predictability and stability in transmission pricing that allows utilities to make informed business decisions.

KMU has certain specific comments and proposed revisions that are reflected in the attached redlined version of the strawman. As explained therein, KMU's comments either restate KMU's position on certain elements, while in some areas propose specific language revisions in order to conform the document to the intentions as KMU understands them.

KMU would of course welcome and question or comment, and looks forward to further discussions among the group.

SPP Southwest Power Pool

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

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

[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.]

KMU Comment: KMU agrees in concept but, like most stakeholders, reserves further comment until the actual "split" and mechanism for making the split are known. In its Critical Comments, KMU recommended adoption of a stated percentage based on an examination of multiple factors, which appears to be the thrust of this provision.

2. Participant Funded: For upgrades eligible for Participant Funding, depending on the category of upgrade, the cost of a new 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.

KMU Comment: KMU is conceptually agreeable, again subject to the details. KMU's principal concern regarding any use of participant funding is market or transaction barrier effect that imposition of costs directly on a customer may have, particularly with respect to smaller systems. KMU also seeks to ensure that municipal and other systems, small or large, are not placed in a competitively disadvantaged position, either by design or effect.

B. Proposed Rate Design

Under the strawman proposal, transmission customers would 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 would 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 is a zonal charge. Costs of upgrades to transmission facilities required to be in service to meet reliability standards prior to the target implementation date for the new cost allocation approach would also be recovered through the 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 Annual Transmission Revenue Requirements associated with the Residual Charge would decline over time due to retirements and the depreciation of a fixed set of facilities.

   Transmission upgrades constructed after the target implementation date for the new cost allocation approach would be recovered either through the Universal Rate, a Zonal Rate or through any Participant Funding Charges.

2. Universal Rate: For Base Funded upgrades X% of the costs of the upgrades would be recovered through a single universal (postage stamp) SPP rate. For certain categories of upgrades eligible for Participant Funding, ~~X~~1-Y% of the costs of the upgrades would be recovered through a single universal (postage stamp) SPP rate. The billing determinants would 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 would be recovered through a zonal rate(s) of the zone or zones for which the upgrade is benefiting.

4. Participant Funding Charge: Depending on the category of the upgrade eligible for Participant Funding, from Y% up to 100% would be recovered through a charge to the parties that volunteer to pay for the upgrade or that requested the upgrade.

KMU comment: KMU does not conceptually disagree with the foregoing. However, in the case of Participant Funding of some portion of an upgrade, the notion of a Participant Funding Charge suggests that either SPP or the involved TO will finance the construction and recover the appropriate portion from the customer bearing a Participant Funding obligation via the Participant Funding Charge. This approach should be at the customer's option. The customer should have the option of financing its own share of the obligation. For example, a municipal should not be required to forego tax-exempt or other available financing and instead pay an SPP or TO financing cost and/or higher carrying charge.

C. Classification of New Transmission Upgrades for Cost Allocation and Rate Design Purposes

1. Base Funded Upgrades: Base Funded upgrades would comprise those upgrades included in and constructed pursuant to the SPP Base Transmission Expansion Plan[1], including the reliability upgrades required to support the following[2]:

(a) Service for all ~~existing~~ Network Resources serving load on a long-term (≥ one year) basis.

[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 used to serve load within the SPP footprint can be met reliably. **[KMU comment: The proposed edits are intended to clarify what KMU believes is already the intent – service to native load in the SPP footprint should be handled in the Base Plan, regardless of whether the supplier is obtaining long-term transmission service under network service, point to point service, or grandfathered agreements.]**

[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. **[KMU comment: KMU continues to be willing, at least initially, to rely on SPP, perhaps coupled with a good utility practice standard. KMU recognizes that certain other stakeholders believe that more defined standards, such as commitment to resources for some minimum number of years, are required. KMU does not oppose reasonable additional criteria but, as it has mentioned in CAWG meetings, cautions strongly that time commitments should not be so long as to cause parties from being unable to participate in the very wholesale market that SPP's operation of the transmission system is intended to promote.]**

(b) ~~Existing l~~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 l~~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 and for changed or new Long-term Point to Point Reservations.

KMU comment: The foregoing proposed revisions are intended to make the language consistent with KMU's understanding of the intent. The strawman contemplates that the base plan includes upgrades needed to serve all native load in the footprint, not just network load. The strawman also would allow new and changed network or other resources to be included in the base plan. Consistent with that approach, which KMU strongly endorses, a change from a grandfathered agreement to tariff service (whether long-term PTP or network), or a change from service from behind the meter generation to imported power, is no different that a new or changed network resource. The insertion of the word "existing" runs counter to that intent and therefore KMU has proposed the changes set out above.

2. Upgrades Subject to Y% Participant Funding: Such upgrades would include economic expansion facilities that are constructed pursuant to the SPP Regional Transmission Expansion Plan that is approved by the SPP Board;

Y% of the costs for such upgrades would 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 would "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 would be subject to full Participant Funding, such that SPP would directly assign full cost recovery responsibility for the upgrades to the requestors. Upgrades in this set are:

[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~~]~~.

(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. Mike to provide some additional information regarding property rights.]

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.

KMU comments: Based on the discussion during the August 31 CAWG meeting, KMU is preliminarily agreeable to the concepts put out by the SPP staff and CAWG, provided that Participant Funding is limited as proposed in this strawman. If, as other stakeholders are urging, Participant Funding would apply to new and changed network resources, new or changed sources delivered under long-term point to point service, and new sources from converting GFAs or load previously served from behind the meter generation, then KMU would not accept the notion of credits payable only out of point to point service using the upgrades. In the context of this strawman, however, and as discussed during the August 31 meeting, Participant Funding would apply only in fairly limited cases, and not to upgrades needed to serve native load reliabily, and thus KMU would be willing to accept that crediting approach. In the end, however, participant funders should get property rights that carry substantially similar economic benefits as those received by TO's that recover their investment and revenue requirements from SPP.

[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.

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 required to be in service to meet reliability standards prior to the target implementation date for the new cost allocation approach would not be Base Funded. Such costs would be recovered through zonal Residual Charges in the same manner that the costs of existing transmission facilities are recovered today.

Strawman Proposal Summary Table [Conforming Changes Required to be consistent with final strawman]

	Existing Residual Charge	Universal Rate	Zonal Rate	Directly Assigned to Requestor or Volunteers
Existing Facilities	100%			
Base Funded (reliability upgrades)		X%	(100-X)%	
		X%	(100-X)%	
Network Upgrades required for Network Resources (≥ one year)		X%	(100-X)%	
Network Upgrades required for existing 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)%	
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