

1. Base Funding Issues

- a. What level of flexibility, if any, should transmission customers have in resource designations in the base plan?

Comments:

1. The base plan should only include preserving the integration of the Network Resources currently designated to serve a load serving entity's forecasted load. The base plan should not include upgrades necessary to qualify new network resources or to change from one network resource to another.
2. Upgrades to qualify a new network resource or to change to a new network resource should be funded by the LSE requesting the new network resources to serve its load.

- b. What percentage of upgrade costs (X%) to be allocated to region-wide rate?

1. The upgrades included in the base plan for load zones, typically control areas, are those upgrades required to meet NERC and local reliability criteria to reliably serve the load within that zone from previously approved Network Resources.
2. In general, none of the upgrade costs included in the base plan should be allocated to a region-wide rate. If the base plan only includes those upgrades required to maintain reliability, including the ability of customers to serve their load from the currently qualified network resources and preservation of existing long term firm point-to-point service, then the costs should be the responsibility of the load zone within which the upgrades are made.
3. Using a load flow model, similar to the AEP proposal, the RTO could identify any benefits to adjoining zones and certain of the upgrade costs could be shared on a voluntary basis between the zones.

- c. How should the remaining portion of costs be allocated among the zones?

Comments:

1. If cost responsibility is shared between zones the sharing should be the result of a load flow analysis similar to the load flow proposed by AEP or a model similar to that used by PJM to determine the benefits of an upgrade in a particular zone to other adjoining zones. Again the the sharing of costs between zones would apply to Base Plan (reliability) projects. .
2. For base plan (reliability) projects, there would be no other “remaining portion of costs.”

2. Economic Upgrade Issues

- a. Percentage of cost of economic upgrades to be allocated to region-wide rate (Y%).

Comment:

1. Economic upgrade costs should be paid for by the party requesting the upgrade unless the party can reach agreement with other parties to fund portions of the upgrade costs. Funding of economic investments should be voluntary. If the party or parties do not wish to fund them, the investments will not be made.
 2. If the party requesting the upgrade reaches agreement with other parties who are willing to fund portions of the upgrade then the load flow model proposed by AEP or a similar model should be used to determine the benefits and cost responsibility of the participating parties.
- b. What rights does a Participant receive for voluntarily funding non-based funded projects?

Comments:

1. This question raises a key issue that at this point is undecided in the proposed SPP RTO – “what will the day-two market model be and what, if any type of transmission rights will be provided to market participants?”
2. The most common market model of the current ISO/RTOs provide Financial Transmission Rights (FTRs) which provides the funding party a delivery hedge against congestion costs.
3. While it has been proposed by some that transmission credits be provided to the funding party, transmission credits is simply rolling-in, or socializing, upgrade costs into rates over the credit period and is not consistent with the principle of “cost causer pays”.
4. It appears that the assumption in the question is that load serving entities will not voluntarily participate to fund the project, which is

simply not the case. If the load flow model clearly shows that a load serving entity's customers will economically benefit from funding a specific transmission upgrade, in most if not all cases the load serving entity will participate. The voluntary approach to economic upgrades provides the LSE the opportunity to work with its local and state regulators to ensure the assumptions in the model are understood and supported by both the LSE and its regulators.

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

Comment:

1. There should be no arbitrary assignment of base plan costs.
2. As discussed above, the costs of base plan upgrades are primarily the responsibility of the zones. They can be shared by adjoining zones on the basis of a load flow model similar to the one proposed by AEP.
3. Any FTRs created by Base Plan investments would be allocated to the customers serving load in the zone or zones that paid for the Base Plan investment. In the case of an economic investment, the FTRs go to the funding party or parties. If the funding party is a LSE serving native load customers, the FTRs are allocated to the funding LSE on behalf of the native load customers.
3. The other factors listed above have no real correlation to the actual benefits that will be derived from base plan upgrades. The changed state load flow model showing before and after results will identify increases or decreases in transfer capability on the transmission grid regardless of voltage level as long as all elements of the grid are included in the model.
4. Some comments indicate that this approach is too complicated and/or costly. The planning engineers at SPP and other transmission owning entities that conduct transmission planning use models similar to the one proposed by AEP to determine the most cost effective upgrades to its transmission system today. While it may be argued that the model results are not exactly accurate due to the nature of the flows on an AC transmission system, it is the most accurate model we have and is far superior to simplifying assumptions that we know will not be supportable in contested rate cases where recovery of transmission costs is being sought.

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.

Comments:

1. Entergy, as discussed above, believes that base plan investments are for reliability and should be paid by the zone in which they are incurred, or, in limited circumstances, by more than one zone. Entergy does not believe that allocation of base plan costs on the basis of “who benefits from economy transactions” should be adopted as part of the transmission expansion policy for the proposed SPP RTO.

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?

Comments:

1. Economic upgrades should be paid for by the party or parties requesting or agreeing to fund the upgrade. Funding of economic upgrades should be voluntary and not dictated by the RTO. The cost responsibility among the voluntary funding parties could be determined using a load flow model similar to the one proposed by AEP along with the number of FTRs that each funding party would receive in return for funding the project.
2. If the SPP RTO is placed in a position of identifying economic upgrades, deciding which ones will be built, determining the benefits to each of the members and allocating a portion of the upgrade costs to each of its members on this basis, we will have placed the RTO in the role of central planner which is reminiscent of the Least Cost Resource Integrated Planning (LCRIP) that was proposed several years ago and soundly rejected. For SPP to perform this role it would have to forecast future fuel prices, and the quantity and location of new generation sources including their fuel types. Is this the model we want? Who is accountable when the fuel forecast and forecasted benefits are wrong? What role is left for the load serving entity in making decisions on how best to provide service to its customers? How are these projects budgeted and paid for? Does the RTO tell each member how much to include in its annual capital budget for transmission expansion? How does each member recover these costs in its retail rates if there is no clear objective analysis or evidence that shows that its customers benefited from the subject economic

upgrades? If this approach is adopted by the RSC, are the SPP retail regulators agreeing that all costs assigned to a member will be allowed recovery in retail rates? Will the statutes of each participating state allow this type of regulatory treatment of transmission expansion costs?

3. Regional cooperation between the states participating in SPP has the potential to provide significant benefits to the customers of the members of SPP. However, unless we address the basic questions such as the ones raised above now, we face the possibility of long drawn out disputes or litigation when we get to the actual implementation phase of the methodology that will be utilized by the SPP RTO for the funding of transmission expansion. One example that causes concern is a simple allocation formula is adopted for economic upgrades is one where an economic upgrade is certificated and built in Missouri and a portion of the costs are assigned to a SPP load serving member in Mississippi who did not request the upgrade nor received any real benefits from the upgrade. The upgrade was built without review with the regulatory body in Mississippi but a portion of the costs were included in a SPP RTO rate approved by FERC and charged to the load serving member in Mississippi, without the Mississippi Commission's opportunity to evaluate the evidence that a benefit was provided to customers in SPP. Now the utility that is an SPP member is requesting recovery of the costs in a retail proceeding in Mississippi. It has been stated by some on the CAWG that recovery of these costs supposedly cannot be denied by a retail commission. That may be true from a legal point of view but in this example we have put the state Commission in a difficult position under state law, because it is only supposed to allow recovery of those costs that benefit the customers of Mississippi. An approach that centralizes decisionmaking about economic transmission projects in the RTO, and has the RTO allocate the costs to customers, is an approach that moves investment decisions to a FERC jurisdictional entity, as opposed to the current situation in which such investments would most likely come under the jurisdiction of a retail regulatory commission through the project certification process. The argument here is not that system-wide economic projects should not be funded by multiple entities, but that the funding should be on a pure voluntary basis which places the SPP load serving members in a position of making the best economic decisions for their customers in concert with their retail regulators.

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?
1. SPP should not be placed in a role of central planner determining what is in the economic best interest of its members as discussed above.
 2. As discussed previously, providing transmission credits for funding transmission upgrades is simply rolling-in or socializing of transmission

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- expansion costs unless there is a clear time-certain transition to a FTR type market structure within a one to two year time frame.
3. Order 2003-A supports participant funding methodologies that directly assign the costs of economic projects to the parties requesting those projects. Below is a direct quote from Order 2003-A addressing such a pricing methodology.
 - a. “692. In addition, as we explained above, an independent Transmission Provider is in a position to implement a policy of direct assignment for Network Upgrades without violating our prohibition on "and" pricing. For example, we have permitted the direct assignment of Network Upgrade costs by an independent Transmission Provider when the Interconnection Customer receives well-defined congestion rights in return.¹⁴⁸ In this case, the customer is not paying twice for the same service but rather is paying separate charges for separate services.”
 4. Economic projects should be paid for by the party or parties requesting the project and receive clearly defined transmission rights in return for funding the specific network upgrades.
 5. In the previously submitted comments Entergy recommended that as a predicate to making the final decision on a transmission expansion pricing policy that SPP first decide and define the set of transmission rights that a funding party would receive in return for funding the project. This requires that the key definitions of a day-two market be in place prior to the adoption of a transmission pricing methodology. Additionally, Entergy recommended that SPP define the integration, or deliverability requirements for a generator to be qualified as a NRIS resource that should be an integral part of any transmission expansion pricing methodology adopted by SPP. I know that referencing PJM does not sit well with some SPP members but PJM has well developed policies that have been approved by FERC for funding of transmission upgrades including the integration of generators as NRIS resources, or capacity resources, that we could learn from here.
 6. SPP must also be explicit about any crediting policy that it intends to implement. It is not enough to say “crediting provisions consistent with Order 2003A.” That Order gives transmission providers some leeway in how they handle the issue. The devil is in the details.