

Straw Proposal

The purpose of this short paper is to summarize the key elements of a proposal to allocate costs for base funded projects within SPP. This paper reflects the discussions of the CAWG members on September 16, 2004 and summarizes the options discussed at that meeting.

Key Elements of Proposal to Allocate Costs for Base Plan Upgrades

The general consensus is that costs should be allocated using a regional/zonal approach. Given that context, the CAWG discussed proposals that consisted of the following elements:

1. Determine the regional allocation factor - X% of costs is allocated to SPP-wide regional postage stamp rate using a defined methodology.
2. Allocate remaining costs to zones – Allocate (100%-X) costs to zones using a defined methodology.
3. Flexibility for including future resources in base plan – this element addresses the question as to the flexibility accorded transmission customers to change their resources in the planning process so that any associated transmission upgrades qualify as a base funded project. This element consists of two components:
 - a. Commitments required for resources to be included in base plan – this element defines certain criteria that must be met in order for a resource to be eligible to be included in the base plan and hence for any associated upgrades costs to be eligible as a base funded upgrade.
 - b. Limitations on requesting future resource requirements – a concern was expressed as to how much capacity a transmission customer is permitted to reserve in relation to its historic requirements. One approach is to establish a hard cap (e.g. 125% of peak load). Another is to establish a reasonability check.
4. Waivers – the CAWG recognized that there may be certain circumstances that would justify waiving certain provisions that would disqualify a proposed upgrade from being eligible for base funded upgrade status. The waivers discussed are listed in a later section.

Combinations Discussed

There were two basic approaches discussed and these are summarized in the table below.

Element	Approach 1	Approach 2
Regional allocation factor	*	50%
Allocation of (1-x) costs to zones	Use the SPP MW Mile approach to identify zones that benefit from upgrade	Allocate remaining costs to zones in which facility(ies) are electrically connected.
Commitment required	5-7 years	3 years
Limits on additional resources	125% of peak load	SPP performs a reasonability check on case-by-case basis.

Approach 1 is a variation on the theme of the SPP proposal. Approach 2 is a mix of elements that were discussed at the meeting. The different elements are not exclusive to one approach so that different parts can be mixed and matched as desired.

* A voltage level allocation or an alternative fixed amount is recommended. Two options have been proposed for the Regional Allocation Factor: Option A, as shown below, uses a voltage level determinate; Option B would fix the allocation to the region between 25 and 33%.

KV Levels	Regional Allocation
> 345 kV	100%
345 kV – 161 kV	40%
< 161 kV	20%

Other Considerations

There were two other general areas that were discussed: waivers and review of the regional allocation factor.

Waivers

The CAWG recognized that any plan must have sufficient flexibility built in to it so that it is both practical and doesn't create any undesirable barriers to the competitive market place. During the meeting, the group discussed including the following waivers to the commitment period and limits on additional resources as part of any proposal:

1. Lack of competitive alternatives – it may be appropriate to approve a project as a base funded project if there are no competitive alternatives for (one or a group) of transmission customers.
2. Dollar magnitude – there may be a *de minimus* standard that is appropriate for small projects in terms of dollar amounts that provide significant value to the region.
3. Distance – the cost of long distance transmission lines may require the customer to commit to a longer period to ensure appropriate cost recovery of the upgrade.
4. Cost-benefit – facilities with a very short payback period may allow for some flexibility in the minimum period commitment
5. Fuel diversity – to the extent a proposed project would benefit the region's fuel diversity, it may be appropriate to allow certain upgrade costs to be eligible for base funding.

Review of the Regional Allocation Factor

The CAWG discussed the question as to how often the regional allocation factor should be reviewed and updated. The discussion focused primarily on three areas: (1) whether this allocation factor should be updated on a regular basis (e.g. every planning cycle); (2) whether this factor should be tied to the commitment level for the resources (e.g. the 3 year or five year term); or (3) whether the factor should be fixed for a minimum period of time. The consensus position developed was that regional allocation factor should be reviewed at least once every 5 years. The SPP Board and RSC could review this more frequently if circumstances warranted. However, the SPP should review the reasonability of this factor under any circumstances at least once every five years.