



Southwest Power Pool, Inc.

**TRANSMISSION EXPANSION
COST ALLOCATION PROPOSAL
BASE FUNDING PROPOSAL**

October 5, 2004



Straw Proposal for Base Funded Upgrades

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 subsequent meetings with the CAWG and stakeholders.

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 included in the base plan and hence eligible for any associated upgrades costs to be base funded.
 - b. Limitations on requesting future resource requirements –
 - i. 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.
 - ii. Another concern was expressed regarding the potential for excessive costs that could be associated with designating a resource a long distance from the load. One approach is to limit location of network resource to be within a certain distance from the load. Another is to set a \$/MW cap on transmission investment.
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.

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 requesting future 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%

Recommended Approach

After weighing the different approaches, the CAWG has developed a recommended approach for allocating costs for base plan upgrades defined by the elements in the table below:

Element	Recommended Approach
Regional allocation factor	X = 33% meaning that 33% of the base plan upgrade costs will be included in an SPP region wide rate.
Allocation of (100%-X) costs to zones	Use the SPP incremental MW Mile approach to identify zones that benefit from the upgrade and allocate remaining costs of base plan upgrades to these zones.
Conditions on including future designated network resources in base plan	
a. Commitment required before upgrades associated with requests to change DNRs are eligible for base funding approach	5 years, meaning transmission customers would have to demonstrate a firm commitment to a resource for at least 5 years before any associated upgrade costs would be eligible to be included in base plan funding.
b. Maximum reserve margin	125% of peak load will be used as an initial limit. Requests that exceed this limit will be subject to a reasonability check by SPP before being approved and included in the base plan.
c. Safe harbor provision for associated network upgrade costs	\$180,000/MW ¹ , meaning that if upgrade costs are less than this figure, they may be included in the base plan if they meet provisions a and b. If the upgrade costs exceed the safe harbor amount, the transmission customer must seek a waiver to have the additional costs eligible for base plan funding.
Waivers	See amended Waivers section below.
Review of the Regional Allocation Factor	Review required at least once every 5 years. SPP Board may elect to review more frequently if conditions warrant.

¹ This figure was calculated as the average of the transmission investment throughout the region using each transmission owner’s annual revenue requirements and fixed charge rate. Hence, a transmission customer requesting to add or change a DNR for 100 MW of service would have a safe harbor limit of \$18M in transmission upgrade costs (\$180,000/MW * 100 MW).

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. 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.
4. Upgrade costs in excess of safe harbor limit – to the extent a transmission customer's request to change a designated resource has network upgrade costs that exceed the agreed safe harbor amount (i.e., \$180,000/MW), the customer may be required to demonstrate commitment beyond the minimum five-year commitment before such costs would be eligible for base plan funding.²
5. Commitment period waiver – it may be appropriate to grant a waiver for requests that do not meet the five-year commitment period if conditions such as the following are met:
 - a. Transmission upgrades associated with the request that are less than the \$180,000/MW safe harbor amount may justify flexibility in the minimum period commitment.³
 - b. Cost-benefit – facilities with a very short payback period⁴ may be eligible for flexibility in the minimum period commitment.

Review of the Regional Allocation Factor

The CAWG discussed the question as to how often the regional allocation factor (e.g., 33%) and the zonal allocation methodology (e.g., SPP MW-mile) should be reviewed and updated. The discussion focused primarily on whether the allocation factor and methodology should be: (1) updated on a regular basis (e.g., every planning cycle); (2) tied to the commitment level for the resources (e.g., the 3 year or five year term); or (3) 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.

² For example, a project that requires \$20M in upgrade costs for 100 MW of a requested designated network resource (i.e., \$200,000/MW) but has a ten-year commitment may qualify as a base funded project even though it exceeds the safe harbor limit of \$180,000/MW.

³ For example, a project that costs \$8M in upgrades costs for 100 MW of a requested designated network resource (i.e., \$80,000/MW) and has only a three-year commitment may qualify as a based funded project even though it is below the five-year minimum to qualify as a designated network resource in the base plan.

⁴ The payback period is the amount of time that is required for the economic benefits from upgrades associated with a designated network resource to cover the cost of the project. For example, if the payback period is 3 years or less, a project with a three-year commitment may qualify as a base funded project.