SPP
Southwest
Power Pool

Transmission Expansion Cost Allocation Proposal

Economic Upgrades

CAWG Meeting

October 12, 2004

Overview

- Purpose of this presentation is to summarize current status on issues and proposals related to economic upgrade projects
- CAWG distributed discussion paper October 8, 2004
- Two alternative approaches discussed in paper will be reviewed today

Background

- Stakeholders submitted comments on economic upgrades that are on both sides of the spectrum
  - One side - Economic upgrades should be identified and significant portion or all of costs should be allocated to regional rate
  - The other side - Economic upgrades should be paid for by those requesting upgrades
- Generally, all agreed that entities that fund an economic upgrade should receive some form of transmission right
  - Debate over whether some type of revenue credit should be put in place under current physical rights type tariff
  - Financial transmission right under market based congestion management

Stakeholder Comments on Economic Upgrade Funding

- **Examples of some specific comments received:**
  - **Parties voluntarily requesting an economic upgrade should fund it directly and there should be no credit mechanism**
  - **Parties that fund economic upgrades should be eligible to receive some form of revenue credits similar to Order 2003-A.**
  - **Set the regional allocation factor at a fixed value and review periodically**
  - **Set the regional allocation factor based on the potential net benefits of the proposed project**
  - **Link this value to the avoided reliability upgrade costs the economic project permits**

Summary of Key Elements

- In the October 8th paper, the CAWG listed the key issues that must be addressed to form a proposal for economic upgrade cost allocation:
  - Mandatory vs. voluntary funding approach
  - Method for identifying beneficiaries
  - Regional contribution
    - Should there be any?
  - Net benefit threshold
    - How will the net benefit of a project be measured and what is the minimum level that must be demonstrated?
  - Transmission rights
    - What rights will a party receive for funding an economic upgrade project?

Overview of Initial Straw Proposal for Economic Upgrades

- SPP identifies projects that provide net benefits and projects must be approved by SPP Board
- Projects are voluntarily funded
- Cost allocation of approved Economic Upgrades
  - (100-Y)% through a single region-wide SPP rate and Y% directly from the party or parties that volunteer to pay for such upgrades
- Parties funding economic upgrades receive:
  - Firm transmission service
  - Eligible for credits from PTP service revenues sold
  - Eligible for credits for charges greater than the base rate if facilities rolled into base rates

Summary of Approach 1 Voluntary Funding Approach

- **October 8th paper included variation on initial straw proposal**
- **Projects are voluntarily funded**
- **Parties decide how project costs will be allocated amongst themselves**
- **Cost allocation of Economic Upgrades**
  - **Parties must at least fund upgrade capacity necessary to meet requested service (Y%)**
  - **(100-Y)% through a single region-wide SPP rate MAY be funded only if incremental benefits exceed costs being rolled in**
- **To be eligible for regional contribution, project must pass pre-defined net benefit threshold**
- **Funding parties would receive transmission rights as outlined in initial straw proposal**

Regional contribution under Approach 1

- If voluntary funding approach is taken, should there be any regional contribution at all?
  - Free-rider consideration
  - Would this make a portion of the upgrade quasi-mandatory?
- Proposal
  - Parties sponsoring upgrades required to fund their requests upfront
    - Eligible for revenue credits discussed later
  - SPP measures incremental net benefits at regional level
    - Benefits excluding those recognized by funding parties
    - Avoids having to define identify specific beneficiaries
  - If regional net benefits exceed pre-defined threshold, these costs may be rolled into region-wide rate

Summary of Approach 2
Mandatory Funding Approach

- October 8th paper included mandatory funding approach as an option
- SPP approved projects funded by identified beneficiaries
  - Project must exceed pre-defined net benefit test before it may be approved by SPP board
  - A specific methodology for identifying beneficiaries has not been agreed at this point
  - Process should include some type of mandatory delay period to allow market to provide alternate solution before mandating project and cost allocation
- Options presented on regional contribution

Summary of Approach 2
Mandatory Funding Approach

- Cost allocation of approved economic upgrades
  - Based on approved beneficiaries test (TBD)
  - Other factors to consider
    - Potential avoided costs of reliability projects
    - Bilateral contract positions of identified beneficiaries
- Funding parties would receive transmission rights as outlined in initial straw proposal

Summary of Approach 2 Mandatory Funding Approach

- **Two options discussed for regional contribution**
- **Option 1 – no regional contribution**
  - **Project is funded by parties identified by agreed methodology**
- **Option 2 – regional contribution based on net benefits**
  - **Set a base line for the regional contribution factor at the same level approved for base plan upgrades**
  - **SPP board may approve higher level of regional contribution if project demonstrates broad regional benefits**

Transmission Rights

- The October 8th paper included the same proposal for transmission property rights as the initial straw proposal
  - Assumption is that SPP will not have financial transmission rights in place prior to policy being implemented
- Parties funding economic upgrades receive:
  - Firm transmission service
  - Eligible for credits from PTP service revenues sold
  - Eligible for credits for charges greater than the base rate if facilities rolled into base rates
  - Projects will be included in future base plans

Revenue crediting proposal

- Parties funding economic upgrades will receive a revenue credit from PTP sales that use the facilities that follows principles in Attachment Z of current SPP tariff
- Parties will receive revenue credit against transmission charges that exceed base rates
- Portion of PTP revenues credited to these parties could be calculated as the product of the following:
  a. The positive response factor of the new point-to-point service on the upgrade;
  b. The capacity reserved for the new point-to-point service;
  c. The percent of funding contributing to the upgrade in excess of the base rate for either network or point-to-point service requested by the transmission customer(s) providing the funding; and
  d. The applicable rate.

Issues not addressed in October 8 CAWG Paper

- Methodology for identifying beneficiaries
  - Required for mandatory approach
  - Options discussed include cost-benefit approach, flow-based methodology
- Net benefit threshold – how should this be defined and measured?
  - Is it based on future market prices? Production costs?
  - Should the net benefit be measured as a ROR calculation for the project?
- Project approval process
  - If a mandatory approach or some form of regional contribution is to be made, what is the process for approving these projects?

SPP Southwest Power Pool

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