



 **SPP** *Southwest
Power Pool*



Transmission Expansion Cost Allocation Proposal

Economic Upgrades

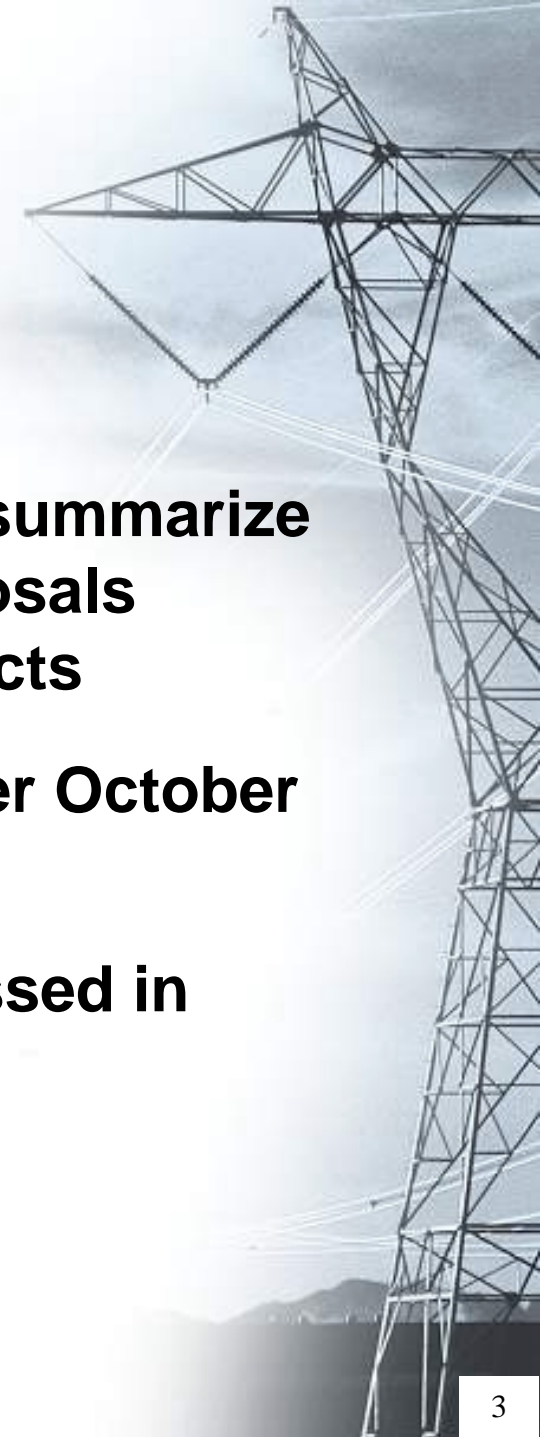
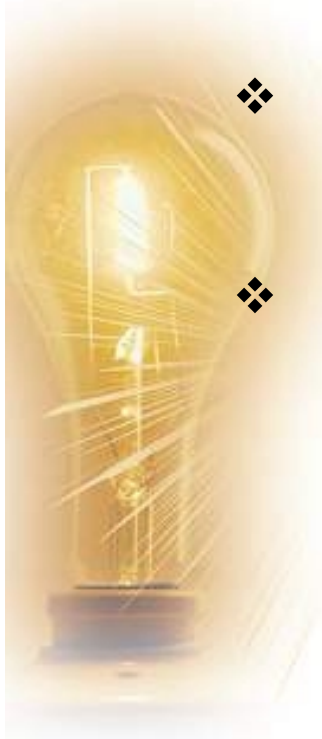
CAWG Meeting

October 12, 2004



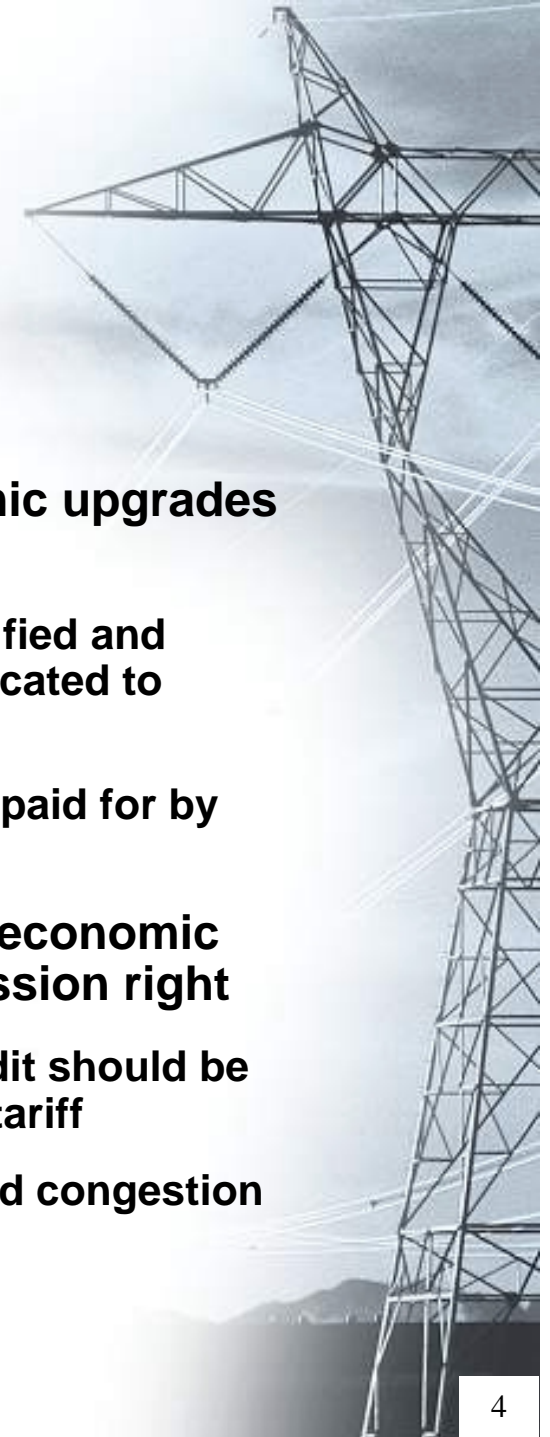
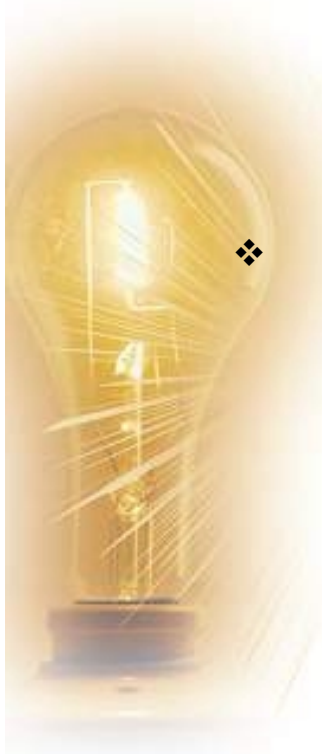
Overview

- ❖ **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

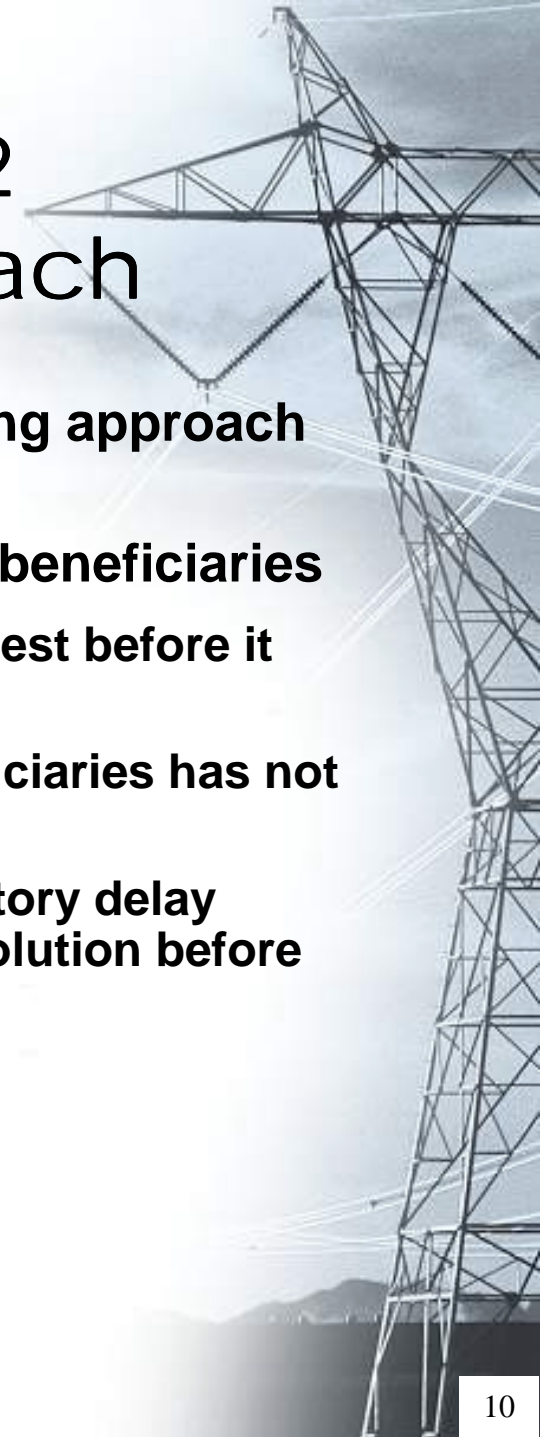
- ❖ **If voluntary funding approach is taken, should there be any regional contribution at all?**
 - ◆ Free-rider consideration
 - ◆ Would this make a portion of the upgrade quasi-mandatory?
- ❖ **Proposal**
 - ◆ **Parties sponsoring upgrades required to fund their requests upfront**
 - * Eligible for 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

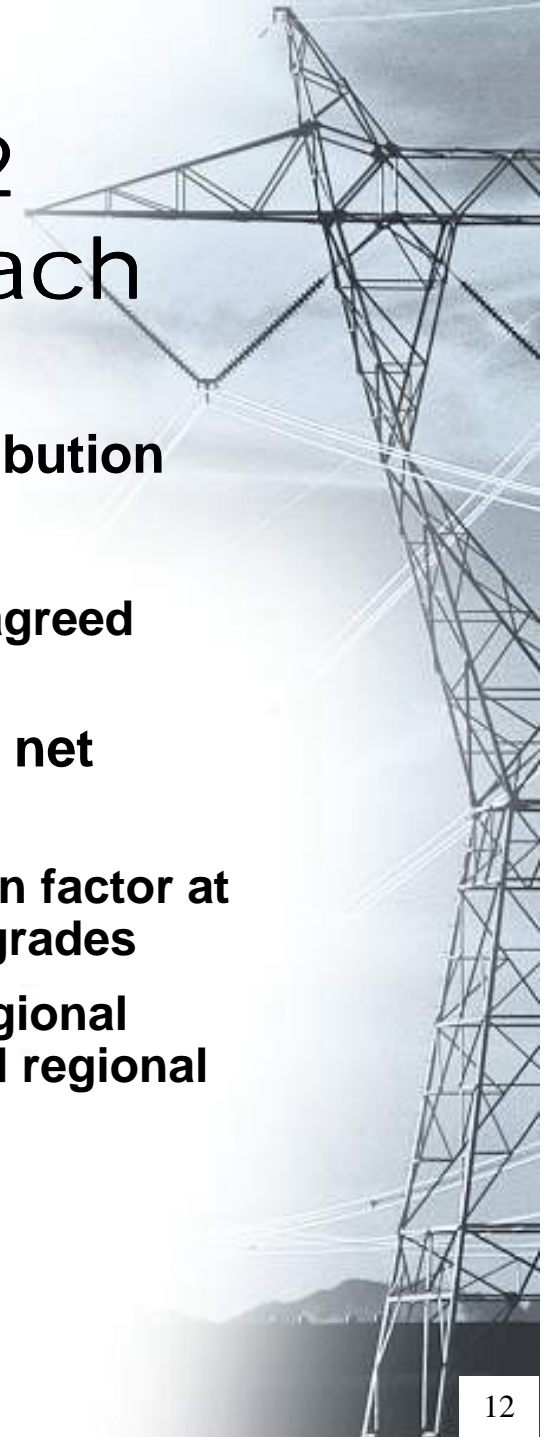
- ❖ **Cost allocation of approved economic upgrades**
 - ◆ **Based on approved beneficiaries test (TBD)**
 - ◆ **Other factors to consider**
 - * **Potential avoided costs of reliability projects**
 - * **Bilateral contract positions of identified beneficiaries**
- ❖ **Funding parties would receive transmission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





Summary of Approach 2 Mandatory Funding Approach

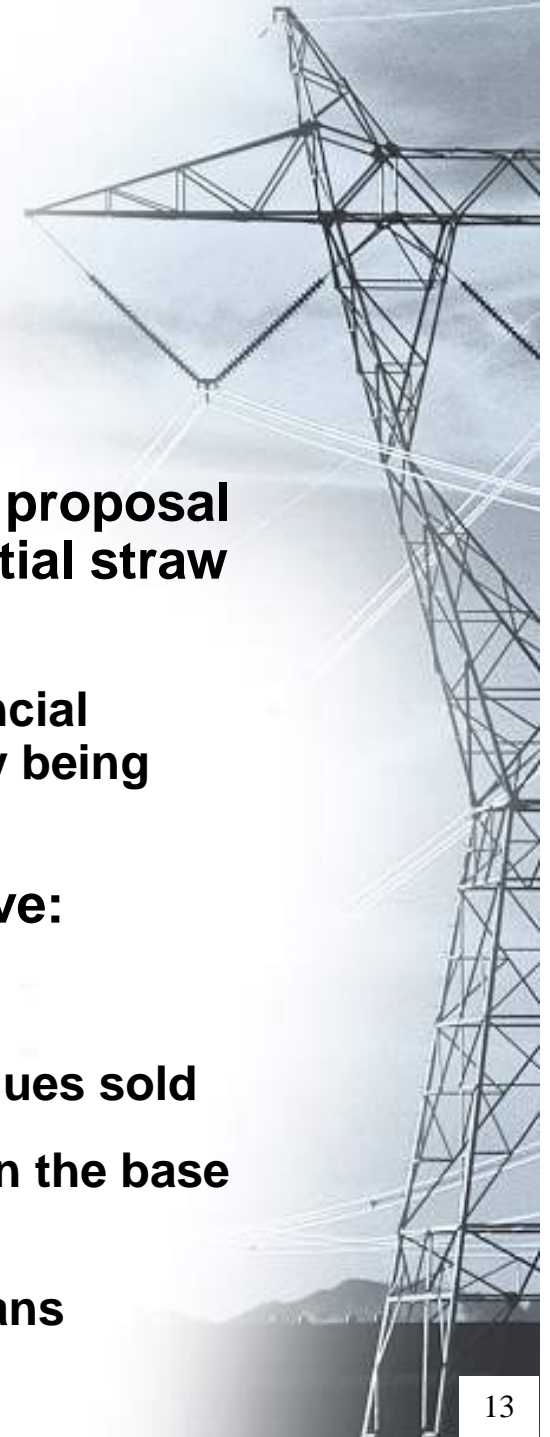
- ❖ **Two options discussed for regional contribution**
- ❖ **Option 1 – no regional contribution**
 - ◆ **Project is funded by parties identified by agreed methodology**
- ❖ **Option 2 – regional contribution based on net benefits**
 - ◆ **Set a base line for the regional contribution factor at the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





Transmission Rights

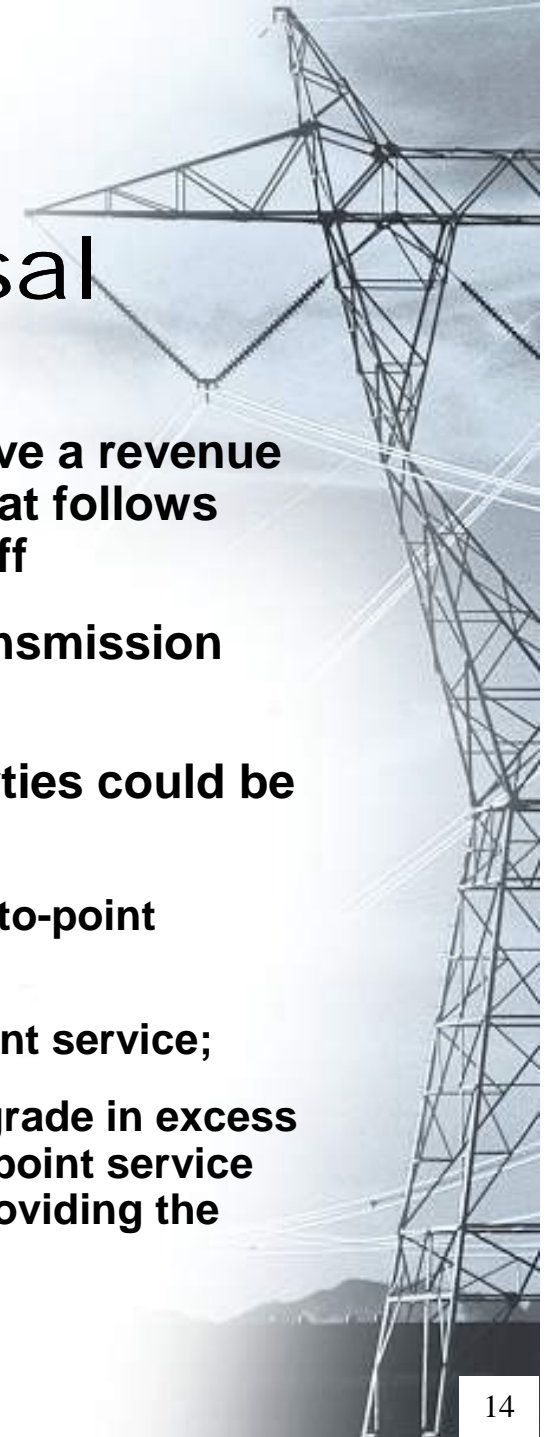
- ❖ **The October 8th paper included the same proposal for transmission property rights as the initial straw proposal**
 - ◆ **Assumption is that SPP will not have financial transmission rights in place prior to policy being implemented**
- ❖ **Parties funding economic upgrades receive:**
 - ◆ **Firm 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

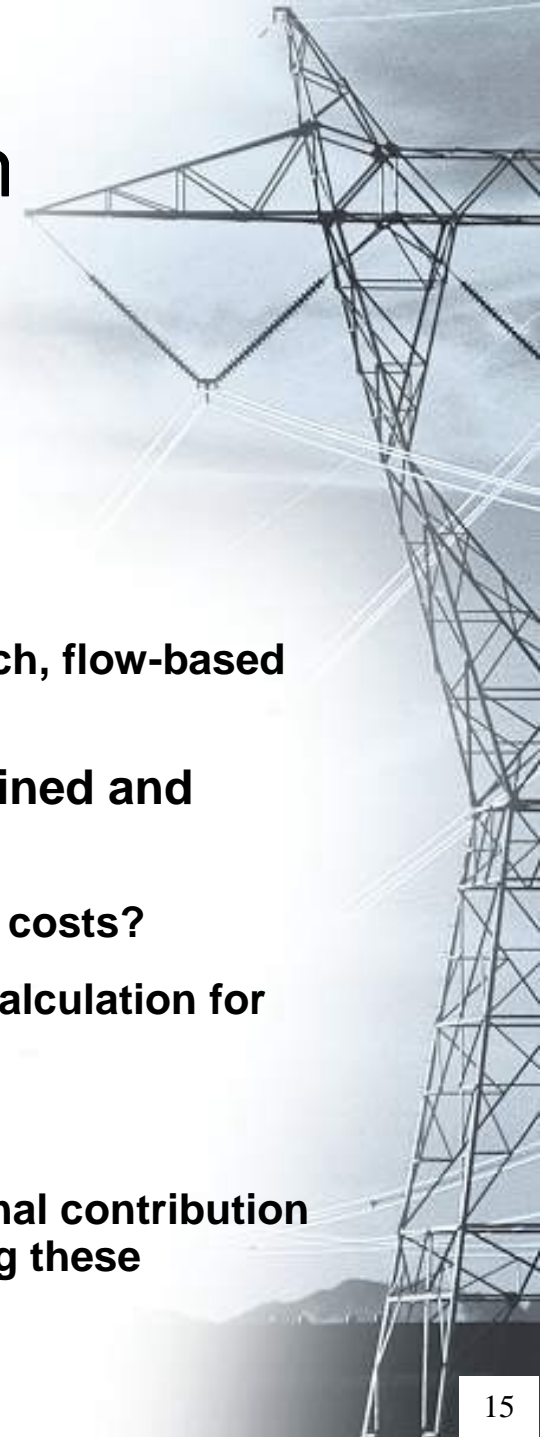
- ❖ **Parties funding economic upgrades will receive a revenue credit from PTP sales that use the facilities that follows principles in Attachment Z of current SPP tariff**
- ❖ **Parties will receive revenue credit against transmission charges that exceed base rates**
- ❖ **Portion of PTP revenues credited 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?





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