



Southwest Power Pool
REGIONAL STATE COMMITTEE TELECONFERENCE MEETING
October 6, 2004

• M I N U T E S •

Agenda Items 1 & 2 – Administrative Items

RSC President Denise Bode, Oklahoma Corporation Commission (OCC), called the meeting to order at 10:05 a.m. Other members in attendance or represented by proxy were:

Sandra Hochstetter, Arkansas Public Service Commission (APSC)
Don Low, Proxy for Brian Moline, Kansas Corporation Commission (KCC)
Mike Proctor, Proxy for Steve Gaw, Missouri Public Service Commission (MPSC)
Julie Parsley, Texas Public Utility Commission (TPUC)

Others in attendance were:

Sam Loudenslager, Arkansas Public Service Commission
Tom DeBaun, Kansas Corporation Commission
Larry Holloway, Kansas Corporation Commission
James Watkins, Missouri Public Service Commission
Greg Meyer, Missouri Public Service Commission
Larry Myer, Missouri Public Service Commission
Joyce Davidson, Oklahoma Corporation Commission
Jess Totten, Texas Public Utility Commission
Bridget Headrick, Texas Public Utility Commission
Walter Wolf, Stone, Pigman, Walther, Wittman, LC, outside counsel for the Louisiana Public Service Commission
Tony Ingram, FERC
Nick Brown, SPP
Bruce Rew, SPP
Les Dillahunty, SPP
Cheryl Robertson, SPP
Carl Monroe, SPP
Richard Spring, Kansas City Power and Light
Al Robbins, Kansas Municipal Utilities
Terri Gallup, AEP
Michael Desselle, AEP
Raj Rana, AEP
John Guensch, OG&E
David Kays, OG&E
Bill Wylie, OG&E
Mike Wise, Golden Spread Electric
Dennis Reed, Westar
Steve Owens, Entergy
Gene Anderson, OMPA

Walt Shumate, Consultant
Bary Warren, Empire District
Darrell Gilliam, SWPA
Beth Martin, Intergen
Mark Rossi, BDR
Tom Stuchlik, Westar
Dave Christiano, City of Springfield
David Brian, East Texas Cooperatives
Bernie Liu, Xcel Energy
Bob O'Neil, Consultant

A quorum was declared. President Bode asked for adoption of the September 22, 2004 meeting minutes. **Secretary Parsley moved to adopt the September 22 minutes. Vice President Hochstetter seconded the motion. President asked for a roll call vote or adoption by acclamation. Hearing no objection, the minutes were adopted by acclamation.**

Agenda Item 3 – Updates

President Bode asked for updates from the RSC officers, FERC, and Southwest Power Pool. Tony Ingram (FERC) informed the committee of three orders issued on October 1:

1. Southwest Power Pool was granted RTO status;
2. SPP/MISO Joint Operating Agreement ruling and action items were discussed; and
3. Rehearing requests regarding the February 10, 2004 order were denied.

Mr. Ingram offered his congratulations to SPP. President Bode stated that she appreciated his presence at SPP and welcomed him to Arkansas.

There were no other reports.

Agenda Item 4 – Business Meeting

Cost Benefit Study: President Bode asked for a cost benefit study report. Sam Loudenslager (APSC) reported that a packet and letter had been sent out Friday, October 1, including an engagement letter and scope of work. Mr. Loudenslager also reported that he had asked Ellen Wolf to look at the reasonability of the schedule. The review presently underway could result in a schedule revision. There are two outstanding issues on the scope:

1. A study to reflect the new environmental regulations that become effective in the 2007-2009 time frame; and
2. Requirements for common sense check on the study results.

Cost Allocation Working Group: President Bode asked for a report on the preliminary findings of the CAWG strawman proposal concerning transmission upgrade and expansion cost allocation for the SPP footprint (Attachment 1 – Cost Allocation Base Plan). Mike Proctor (MPSC) stated that he distributed the Cost Allocation Base Plan Straw Proposal on October 7. Mr. Proctor asked for a report on the proposal from Bruce Rew (SPP). Mr. Rew stated that the CAWG had met twice since the last RSC meeting reviewing different approaches. The recommended approach for allocating costs for base plan upgrades is defined by the following elements:

1. Regional Allocation Factor – 33% of the base plan upgrade costs will be included in an SPP region wide rate with the remaining 67% allocated to the zone(s) benefiting from the upgrade;

2. Conditions on including future designated network resources (DNRs) in base plan:
 - a. Commitment required before upgrades associated with requests to change DNRs are eligible for base funding approach (5 years)
 - b. Maximum reserve margin (125% of peak load)
 - c. Safe harbor provision for associated network upgrade costs;
3. Waivers
4. Review of the Regional Allocation Factor every 5 years

Mr. Rew stated that the CAWG recognized that there might be circumstances that would justify waiving certain provisions. The working group offered 5 different waivers for cost allocation:

1. Lack of competitive alternatives;
2. Dollar magnitude;
3. Fuel diversity;
4. Upgrade costs in excess of safe harbor limit; and
5. Commitment period waiver.

It was noted that the list of waivers is not a closed list. The process for approving waiver requests would involve individual entities making the initial request, which would then be reviewed by SPP regulators and stakeholders, and ultimately would be sent to the Board of Directors. RSC will be involved in the process. It was requested that the process necessary to approve waivers be included in the written proposal.

During discussion it was asked if firm point-to-point upgrades would be the same as network resources. The firm point-to-point and network resources would have the same requirements. It was requested that this information also be included in the written proposal.

RSC members expressed their thanks supporting the fact that this proposal, although not having agreement on all points, was an excellent compromise and a good starting point. President Bode inquired as to the will of the group concerning a vote of approval. Hearing no opposition to the compromise from the RSC, Mr. Proctor felt a vote was not needed but the CAWG would move forward with a draft proposal for the October 13 RSC staff meeting and a formal vote at the October 26 meeting.

A draft discussion document will be sent to the RSC exploder on economic upgrades alternatives prior to October 12.

President Bode asked for any new business. None was offered.

Agenda Item 5 – Future Meetings

The next scheduled meeting is the RSC Annual Meeting October 26 in Little Rock. Meeting details and agendas will be posted on the SPP RSC web page.

Adjournment

With no further business, President Bode asked for a motion to adjourn. **Secretary Parsley moved to adjourn. Vice President Hochstetter seconded the motion. With all in agreement, the meeting adjourned at 11:25 a.m.**

Respectfully Submitted,

Julie Parsley, Secretary



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.