



Southwest Power Pool
REGIONAL STATE COMMITTEE TELECONFERENCE MEETING
January 5, 2005

• M I N U T E S •

Agenda Items 1 & 2 – Administrative Items

RSC Vice President Sandra Hochstetter (APSC) called the meeting to order at 8:32 a.m. Other members in attendance or represented by proxy were:

- Brian Moline, Kansas Corporation Commission (KCC)
- Steve Gaw, Missouri Public Service Commission (MPSC)
- Julie Parsley, Texas Public Utility Commission (TPUC)
- Joyce Davidson, proxy for Denise Bode, Oklahoma Corporation Commission (OCC)

Others in attendance were:

- Sam Loudenslager, Arkansas Public Service Commission
- Mary Cochran, Arkansas Public Service Commission
- Larry Holloway, Kansas Corporation Commission
- Mike Peters, Kansas Corporation Commission
- Thomas DeBaun, Kansas Corporation Commission
- Mark Doljac, Kansas Corporation Commission
- Don Low, Kansas Corporation Commission
- Mike Proctor, Missouri Public Service Commission
- Ryan Kind, Missouri Office of Public Counsel
- Ed Farrar, Oklahoma Corporation Commission
- Bridget Headrick, Texas Public Utility Commission
- Jess Totten, Texas Public Utility Commission
- Walter Wolf, Stone, Pigman, Walther, Wittman, LC, outside counsel for the Louisiana Public Service Commission (by telephone)
- Tony Ingram, FERC
- John Rogers, FERC
- Nick Brown, SPP
- Bruce Rew, SPP
- Les Dillahunty, SPP
- Cheryl Robertson, SPP
- Carl Monroe, SPP
- Alan Robbins, Kansas Municipal Utilities
- Terri Gallup, AEP
- Michael Desselle, AEP
- Mike Wise, Golden Spread Electric

Gene Anderson, Oklahoma Municipal Power Authority
Steve Owens, Entergy
Walt Shumate, Consultant
Dave Christiano, City of Springfield
Jeff Natic, City of Springfield
David Brian, East Texas Electric Cooperatives
Mike Lavanga, East Texas Electric Cooperatives
David Fleischaker, Secretary of Energy (Oklahoma)

A quorum was declared. Vice President Hochstetter asked for adoption of the December 8, 2004 meeting minutes. **Secretary Julie Parsley moved to adopt the December 8 minutes. Brian Moline seconded the motion. There was no opposition and the minutes were approved by acclamation.** Secretary Parsley suggested that due to the agenda not being distributed on the SPP RSC exploder list until January 4, no votes on substantive issues should be taken. All were in agreement.

Agenda Item 3 – Updates

Vice President Hochstetter asked for updates from the RSC officers, FERC, and SPP.

Tony Ingram reported on FERC activities. Mr. Ingram reported on events from the December 15, 2004 meeting. Mr. Ingram noted that Order 2003B was issued and that a technical conference for market base rates is scheduled for January 27 and 28 in Washington, D.C. Mr. Ingram stated that FERC staff will study the post-technical conference comments due January 28 related to action items identified at the December 1, 2004 wind conference held in Denver. A sunshine notice is expected next week for a January 19, 2005 meeting.

Nick Brown reported on SPP activities. Mr. Brown noted that work was progressing well on the cost allocation effort. Preparations are underway for the SPP Board of Directors meeting in Shreveport on January 25, 2005. It is planned to have two new committees reporting to the SPP Board, the Compliance Committee and the Corporate Governance Committee. Mr. Brown reported on two action items from the Strategic Planning Committee concerning RSC:

- Have dialog with the RSC to clarify the cost allocation process. Different groups have different interpretations of the process.
- Discuss expectations between the RSC and an RTO – what met expectations and what did not.

Vice President Hochstetter asked if a face-to-face meeting would be more effective between RSC and SPP at the January 24, 2005 RSC meeting. Mr. Brown agreed that an in-person meeting would be preferable to a teleconference. When asked about the status of the SPP seams agreement with Midwest ISO (MISO), Mr. Brown explained that an agreement had been filed that was much the same as the MISO/PJM agreement but did not reflect SPP's proposed modifications. Vice President Hochstetter requested that Mr. Brown please send a bulleted list of the SPP proposed modifications regarding the SPP/MISO agreement for informational purposes.

Vice President Hochstetter informed the committee that Commissioner David King of the New Mexico Public Regulation Commission (NMPRC) had resigned as Treasurer due to a potential

complaint from the New Mexico Attorney General's Office. Les Dillahunty (SPP) explained that he had spoken to the Assistant Attorney General and Consultant Mike McGukin to present an outline of SPP's activities. SPP will continue to work through the Cost Benefit Task Force, the New Mexico Attorney General and Commissioner King to bring New Mexico back into RSC. It was determined that a formal resignation has not been received to date. Mr. Dillahunty will stay in touch with Commissioner King and Secretary Parsley will follow-up regarding any formal resignation.

Vice President Hochstetter asked for reports from other officers. No other reports were offered.

Cost Benefit Study (CBTF): Vice President Hochstetter asked for a cost benefit study report. Sam Loudenslager (APSC) reported that the initial data collection necessary for the cost benefit analysis modeling efforts were complete but still needed to be cleaned up. When modeling is complete, possibly by the end of February or early March, initial results will be sent to the CBTF before being presented to the RSC. Mr. Dillahunty reported that there was some concern that the model was not representing actual historic flows, so they are modeling against actual data and doing a reasonability test. Bruce Rew (SPP) is developing a cost benefit scope document evaluating option 2, one of three options presented in December. Discussion revealed that there was confusion over the scope content. Les Dillahunty and Bruce Rew will contact the CBTF, the CAWG, SPP Staff and CRA to achieve the desired scope language which will be available by the January 24, 2005 meeting.

Cost Allocation Working Group (CAWG): Vice President Hochstetter asked Mike Proctor (MOPSC) for an update on the cost allocation for transmission upgrades. Mr. Proctor reported that the Regional Tariff Working Group (RTWG) was asked to address stakeholder input for the RSC Cost Allocation Proposal and discussed the background of two revenue crediting issues (see Attachment A for an outline of the issues). SPP has filed Attachment Z; however, modifications to Attachment Z may be in order. A question has arisen concerning the cost of network upgrades associated with the new or changed Designated Network Resources (DNRs) that exceed the safe harbor limit of \$180,000/MW. When a request exceeds this limit, the transmission customer would fund the difference. Mr. Proctor stated that it would be helpful to RTWG if RSC were to offer an opinion of current draft language. The RSC indicated support for cost recovery, with minor points of concern, but agreed that this was a good starting point as modifications can be made in the future if inappropriate subsidies or economic problems arise.

Vice President Hochstetter inquired about SPP language as promised at the last CAWG meeting concerning a "sanity or reasonableness check". Mr. Dillahunty stated that a draft of Attachment J would address this and will be distributed to the group via email.

Vice President Hochstetter asked if any old or new business needed to be addressed. There was no other business presented.

Agenda Item 5 – Future Meetings

The next scheduled RSC meeting is January 24, 2005 in Shreveport. Meeting details and agendas will be distributed and posted on the SPP RSC web page.

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Adjournment

With no further business, Vice President Hochstetter adjourned the meeting.

Respectfully submitted,

Julie Parsley, Secretary

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Attachment A

BACKGROUND: Under Attachment Z, transmission customers that fund a portion of an upgrade are eligible to receive a specified portion of the revenues from new transmission sales that impact the upgraded facilities. For example, a transmission customer requesting new point-to-point, firm transmission reservation would be required to pay the maximum of either the embedded cost rate or the cost of the upgrade (annualized over the period of the request). If the cost of the upgrade is higher, the customer is entitled to receive revenue credits up to an amount equal to the difference between the cost of the upgrade and the embedded cost rate.

Issue 1: Should a transmission customer whose request for a new or changed DNR that has exceeded the \$180,000/MW limit and who wants to go forward with the request by funding the excess above that limit be entitled to receive revenue credits from new transmission service sold by SPP that impacts the upgraded facilities?

YES: CAWG members from the Kansas, Missouri, Arkansas and Oklahoma staffs supported giving the transmission customers revenue credits.

The primary reason is consistency with what transmission customers receive through Attachment Z for other forms of requested funding. The basic concept behind Attachment Z is that if a requested upgrade results in more capacity than is needed by the transmission customer request (i.e., “lumpy” transmission investment) then the transmission customer should receive payments for new transmission service that uses the facilities that were upgraded and for which that transmission customer is making payments. The analogy to the Attachment Z case is clear – the \$180,000/MW is comparable to the embedded cost for the transmission service, and in both cases the transmission customer would be entitled to receive revenue credits for the excess above these base levels.

NO: Texas staff did not support giving the transmission customers revenue credits because it was believed that such credits would distort the price signal given to the transmission customer regarding where to locate new or changed DNRs.

BACKGROUND: Under Attachment Z, transmission customers that fund a portion of an upgrade are eligible to receive a specified portion of the revenues from new transmission sales that impact the upgraded facilities. However, there is a limit or a cap to the revenues that they are eligible to receive. In Attachment Z, this cap is simply the amount the annualized cost of the upgrades minus the embedded cost. To the extent that the revenues received are less than this cap, the difference plus interest carries over to the subsequent year.

Issue 2: Should a cap on the amount of revenues received from revenue crediting be set based on the excess capacity created by the upgraded facilities?

YES: Tentatively, the CAWG members that supported revenue credits tended to agree with the concept that the revenue credit entitlements should be capped not just by the \$/MW above the \$180,000/MW, but also by the amount of excess capacity created by the upgrades. We have questions about how to determine the excess capacity, but assuming it can be determined, the cap on revenues that the transmission customer can receive would equal the minimum of $(\$/MW \text{ above the } \$180,000/MW) * (\text{excess capacity from the upgrades})$ compared to $(\$/MW \text{ above the } \$180,000/MW) * (MW \text{ of DNR}) = \text{amount of the transmission upgrade that is participant funded}$.

This is consistent with the concept for providing revenue credits; i.e., lumpy transmission investment. Because this approach will typically make the cap smaller, it will also limit the carry over liability that is incurred when revenue credits fall short of the cap. Part of the concern is in creating an increasing “liability” to pay the transmission customer when the upgrades created little or no ability to provide capacity for sales of new transmission.

NO: The alternative is to set the cap strictly on the dollars funded by the transmission customer, i.e., equal to $(\$/MW \text{ above the } \$180,000/MW) * (MW \text{ of DNR}) = \text{amount of the transmission upgrade that is participant funded}$.

The argument is to keep the cap the same as it is for all other participant funding of transmission upgrades, where revenue-crediting caps do not depend on the excess capacity created by the upgrades. While the excess capacity will limit the amount of new transmission service that the SPP can sell, it should not limit the ability of the transmission customer to recover what it has had to contribute above the embedded costs. In essence, there is no conceptual difference between funding the excess above \$180,000/MW and funding the excess above the embedded cost transmission rate.

NOTE: Linking the cap to the amount of excess capacity may make sense for both cases, but would also require a fundamental change to Attachment Z.