



SPP RSC CAWG MEETING
April 6, 2004
Hyatt Regency DFW, TX
1:30 – 5:30 pm

AGENDA

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| 1. Meeting Begins | 1:30 p.m. |
| 2. Update on revisions to Attachment Z | 1:30 – 2:30 |
| a. Cost Allocation filing revisions | |
| b. Examples of how Attachment Z would be implemented | |
| 3. Discussion of concepts paper (All) | 2:30 – 5:00 |
| a. Point-to-point versus Network service related to economic upgrades | |
| b. Specification of Transmission Rights within the markets | |
| 4. CAWG approach to stakeholder involvement | 5:00 – 5:30 |

ATTACHMENT Z BASIC CONCEPTS

Aggregation of Requests

Attachment Z was submitted as a way to aggregate long-term point-to-point (PTP) and long-term designated network resource (DNR) requests. Long-term is any request that is for service for one year or longer. The aggregation of requests then involves an allocation process by which the requestors are allocated their share of the costs for each of the projects required to grant all of the requests. This allocation process is simply a prorated share of the “total of all incremental impacts on such upgraded facility,” where “the average incremental power flow impact of each request in the aggregate study shall be determined using each summer model available for the aggregate study period, after the COD [commercial operation date] of such upgraded facility.”

PTP Service Requests - FERC “or” Pricing

For long-term point-to-point requests, attachment Z applies “higher of” pricing in the following way: “the levelized monthly revenue requirement derived from the cost allocation process shall be compared to the charge applicable for each request under the base transmission service rate of Schedule 7, Section 1, and each customer shall be required to pay the higher of the total monthly base rate charges or the monthly revenue requirement associated with the facility upgrades.”

This calculation of levelized monthly revenue requirement depends on the time period for which the PTP service is requested. Moreover, the present value of the levelized monthly revenue requirement over the term of service is equal to the cost of the project.

Designated Network Resource Requests – Use to be FERC “and” Pricing

Network Integration Service customers must pay, in addition to their total monthly base rate charges, an additional charge that covers “the monthly revenue requirement associated with the facility upgrades.” It appears that the levelized monthly revenue requirement for DNR service is calculated in the same way as for PTP service. With the funding of base plan upgrades that include requests for new or changed DNRs, it appears that what would be covered under Attachment Z would only be requests for DNR service that does not qualify for base funding. Moreover, our focus should be on additional DNR service requests for economic upgrades and how such requests would be distinguished from portions of costs for reliability upgrades from requested DNR service that don’t qualify for base funding..

Revenue Credits

Transmission customers that pay any charges in excess of their base charges are allowed to receive revenues from new future sales of point-to-point transmission service that occur because of the upgraded facilities. The excess over the base charge is the most that can be received in such revenue credits.

QUESTIONS REGARDING PTP VS. DNR SERVICE RELATED TO ECONOMIC UPGRADES

1. Will those funding economic upgrades do so via a request for long-term PTP or DNR service?

A. In the case of PTP, the transmission customer can only receive revenue credits up to the difference between the monthly revenue requirement associated with the facility upgrade and the base rate for PTP service, but the DNR request can receive up to the full amount of the monthly revenue requirement. If the DNR request does not require the transmission customer to have a call on the capacity of the DNR, then it is clearly advantageous for the transmission customer to request DNR service rather than PTP service. This raises basic issues regarding placing a request for DNR service that is intended for economic reasons rather than for reliability reasons.

2. Should someone wanting to fund economic upgrades be able to do so via a request for DNR service?

A. No. The concept behind DNR service is to provide transmission from capacity resources to load. Economic upgrades are meant to represent additional transmission that will decrease congestion costs and allow for more efficient use of energy within the SPP system. These are “off-system” or “economy” transactions, not going from DNRs to load, rather going from someone else’s DNRs or from generators that are not DNRs as substitute, lower-cost energy for the DNRs associated with a given load. The transmission service that represents these off-system transactions should not be characterized as the same transmission service used to serve the load from its DNRs. The CAWG recognized this fact by setting a 125% of peak load limit on what would qualify as a DNR for base funding.

3. Should Attachment Z be rewritten to recognize that DNR service is not meant to be a way of requesting transmission service for economic upgrades?

A. Yes, but Gene Anderson’s modifications may not do this. Gene’s modifications attempt to include requests for DNR service under the base funding approach that do not meet the safe-harbor limits. However, it is not clear how this is distinguished from DNR service requests associated with economic upgrades. For example, if the DNR request associated with an economic upgrade does not have a contract for capacity and results in more than 125% of peak load, would such a request be classified as not meeting the safe harbor limits under Gene’s proposal? This is not clear. The CAWG needs to clearly state what it wants and if the RTWG agrees, they would have Pam write up tariff language that would hopefully implement this.

4. Do Gene’s proposed modifications just apply to costs in excess of the Safe Harbor Limit of Attachment J, i.e., \$180,000 per MW?

A. As stated above, this is not clear from Gene’s proposed modifications. I have sent Gene an e-mail asking him what his intent is with respect to DNRs that don’t meet the other two limits - 5-year capacity contract and DNR capacity less than 125% of peak load.

5. Are you suggesting that transmission requests associated with funding economic upgrades should be for PTP transmission service?

A. That would be an acceptable approach. Moreover, what the transmission customer is looking for is a transmission right in excess of its normal network service

that will allow for the purchase of additional low-cost power from the SPP power system. This is something in excess of normal network service and should be subject to additional transmission charges.

6. Should a transmission customer that funds an economic upgrade have to pay the transmission charges associated with the transmission service received?

A. If the funding results in monthly revenue requirements for the upgrades that are less than the tariffed PTP rate, the transmission customer should have to make up the difference and pay the full PTP rate. However, if the monthly revenue requirements for the upgrades are greater than the tariffed PTP rate, the funding occurs through the FERC “or / ”higher of” pricing, which can be thought of in the following way. The transmission customer pays for the upgrades through the monthly revenue requirement associated with the facility upgrades and gets credit for the PTP transmission rate from these payments. The excess above the PTP transmission rate is added funding for which the transmission customer is entitled revenue credits from additional transmission service that can now be sold because of the upgrade. Thus, a portion of the funding is credited for the transmission service and there is no double counting, i.e., funding plus having to pay the rate.

7. Could this same pricing approach used for PTP service work for DNR service?

A. Not without significant modification of Attachment Z. Moreover, the current form of Attachment Z requires the full funding of additional DNR service by the requestor, but also gives the requestor revenue credits for the full amount of the funding. In order to make DNR service work the same as PTP service, Attachment Z would have to be modified to only allow the transmission customer to be eligible for revenue credits for an amount in excess of what would otherwise be the PTP charge for additional transmission service above the normal level granted for DNRs. It would probably be simpler to restrict DNR service to generation units for which the transmission customer has capacity rights.

QUESTIONS ON HOW TRANSMISSION RIGHTS WORK WITHIN THE MARKETS

8. How do long-term PTP (or DNR) service rights work within the context of bilateral markets for energy?

A. The transmission service gives the transmission customer the right to schedule from the points of delivery to points of receipt specified in the transmission service agreement. When the transmission customer is not using this right, it would be available to other market participants and the transmission customer would be paid the revenue credits from their use for PTP service.

9. How does long-term PTP or DNR service work within the context of the SPP energy imbalance market?

A. Transmission rights in the SPP energy imbalance markets are not the right to inject and withdraw power. Instead, holders of transmission rights that schedule transactions according to those rights are forgiven from having to pay congestion costs on the schedule. For example, if the transmission customer schedules 100 MW at a point of delivery into the transmission network and 100 MW at the points of receipt for the load, this allows the transmission customer to effectively pay the nodal price at the point of delivery rather than at the load. This works the same as a

financial transmission rights (FTRs) with the one exception that PTP and DNR rights must be scheduled in order to be forgiven congestion charges.

10. In the SPP energy imbalance market, what is a schedule and how does it work?

A. A schedule is for a specified number of megawatts from a point of delivery (generation source, etc.) to the points of receipt (load, etc.). The megawatts at the generator must match the megawatts as the load. In the SPP energy imbalance market, imbalance is measured as the variation of actual from what has been scheduled. It is expected that every load-serving entity will schedule generation to serve its load each hour of the next day. If they don't, they would be exposed to paying congestion charges from their generation to their load. This does not mean that a utility will actually serve the load from only its own generation. Suppose, that the market price is cheaper than the incremental cost from a generation unit that is scheduled to meet load. The SPP imbalance market will not dispatch any more expensive generation bid in even though it has been scheduled, but instead will dispatch cheaper generation bid. In the settlement, the utility would have scheduled more generation that was dispatched – this is an imbalance – and will now pay the lower market price for the generation than incur the higher cost of running the scheduled unit. Note however, that if that higher cost generation was not scheduled, in addition to the market price at the generation node of the generation that was scheduled but not dispatched, the utility would have to pay the congestion charges to deliver the generation to its load.

11. Can these PTP or DNR transmission rights act strictly as financial rights?

A. Yes, in the following ways. The holder schedules 100 MW at a point of delivery and at the points of receipt, however this is above physical power and load for the holder. When settlements are made, the holder will pay the nodal price at the point of delivery for not having made the scheduled generation at that point, and will be paid the nodal price at the points of receipt for the load not being there. The difference in prices between the two times the 100 MW is paid to the holder of the PTP or DNR transmission right. [It should be noted that the MWG has proposed rules that would penalize over and under scheduling to prevent gaming of the system. It is not clear whether or not those rules were meant to discourage the use of PTP or DNR transmission rights acting strictly as financial rights.]

12. In the SPP energy imbalance market, must holders of the PTP or DNR service schedule transactions in order to gain any benefit from their investment in the economic upgrade of the transmission system?

A. Not all the time. The upgrade will relieve some of the congestion on the transmission system and the number of hours for which there is no congestion should increase and this will benefit the market participants including those that financed the upgrades. However, for the hours where there is congestion, the holders of PTP and DNR service will need to schedule transactions in order to obtain the benefit of reducing their costs by the amount of the difference in nodal prices.

13. Will there be any demand for short-term PTP service that will generate revenues for the revenue credits?

A. When there is no congestion on the system, there will be little if any demand for short-term PTP service because such service only gives the transmission customer

forgiveness of congestion costs. During periods of congestion there will be a demand for short-term PTP transmission service, but unlike FTR auctions, the price will be set by the tariffed rate and service sold on a first-come / first-served basis.

14. Would there be any benefit from SPP selling PTP transmission service in an auction process?

A. SPP could move from selling PTP transmission at a tariffed rate on a first-come / first-served basis to a market-based approach to congestion management by allowing these PTP rights to be sold at auction. In an auction process, the holder of the PTP or DNR long-term rights could offer their rights to be sold at auction.

15. Would having auctions for PTP service rights meet FERC's requirement for market-based congestion management?

A. No one knows for sure what will meet the FERC requirement for market-based congestion management, but it appears that such a market-based approach should meet the FERC requirement. [Unclear as to how this would meet FERC's market-based congestion management if service is a pre-requisite for scheduling.]

16. How does the revenue credit approach in Attachment Z compare to an auction for PTP service rights?

A. In the case of revenue credits, the SPP is the seller of the PTP rights and there would need to be a determination of the portion of these sales that are incremental. Then the tariffed rate would be applied to determine the revenues that go to those funding the transmission upgrades. In this approach, it is not clear how non-use of the transmission rights by those that contributed to the funding would make any difference in the distribution of these revenue credits.

If an auction were run, those holding these rights could offer them for sale if they didn't want to use them (i.e., to submit schedules), and the SPP would offer any surplus rights that might exist. Those funding the transmission upgrades would receive a prorated share from revenues attributed to SPP surplus rights offered into the auction. In addition, those offering rights into the auction that are sold would receive the auction-clearing price times the amount of their rights that were sold.

17. Would having auctions for PTP service rights rather than revenue credits for incremental sales of PTP rights provide better incentives for investment in economic upgrades?

A. Yes. In comparing the two, the revenue crediting approach would only provide revenues from a tariffed price times the amount of incremental sales from the SPP. In general, thinking of incremental sales as being sales from surplus rights held by the SPP, the auction-clearing price is likely to be higher than the tariffed price during periods of congestion, and this would provide better incentives for investment in economic upgrades.

18. Would the auction approach provide less value if the economic upgrades eliminate most, if not all of the congestion?

A. If their congestion is eliminated, there would be no demand for PTP rights whether there is revenue crediting or an auction. Therefore, in such an unlikely case, it does not matter which of these processes is followed. It is important to remember there are two incentives for funding economic upgrades: 1) cheaper power through

increased sales from lower-cost generation; and 2) revenues from either revenue credits or auctions.