Southwest Power Pool

CAWG MEETING
Aug. 9, 2006
Hyatt Regency DFW
Dallas, TX
1:30 – 5:30 pm

AGENDA

1.	Meeting Begins	1:30 p.m.
2.	Attachment Z List of Issues for RTWG Issue 4 Issues Related to Subsequent Use of Directly Assigned Network Upgrades by PTP Transmission Service – not DRs Discussions lead by Mike Proctor	1:30 – 3:00
5.	15 minute break	3:00 – 3:15
6.	Attachment Z List of Issues for RTWG Issues identified from June 28, 2006 meeting 1.B, 1.C, 1.E, 1.F, 2.B.1, 2.B.2, 3.B.1, 3.B.3 Discussions lead by Mike Proctor	3:15 – 5:30

Attachment Z
List of Issues for RTWG

CAWG Meeting

June 28, 2006

Section 1

Issues Related to Project Sponsors With and Without Request for Transmission Service

Issue 1.A

- Should Project Sponsors that are not transmission customers be allowed to request Network Upgrades?
  - CAWG Recommendation: YES
  - Implies that Attachment Z should be divided into two distinct parts:
    - Part I: Aggregated Study Process for Requested Upgrades – including Project Sponsors that are and are not requesting transmission service.
    - Part II: Revenue Credits from Subsequent Transmission Use of a Directly Assigned Network Upgrade – including revenue credits for Project Sponsors that are and are not taking transmission service on the Directly Assigned Network Upgrade.

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Issue 1.B

- Do any changes need to be made to Attachment Z regarding the aggregate study process?
- CAWG Recommendation: Yes, the current version of Attachment Z only refers to requests for transmission service.
  - This needs to be changed in order to allow Project Sponsors that are not requesting transmission service to participate in the aggregate study process.
  - In addition or alternatively, Project Sponsors not requesting transmission service should be able to propose upgrades at any time, outside the aggregate study process.

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Issue 1.C

- Should the direction of the impact of subsequent requests for transmission service matter in determining the eligibility for revenue credits?
- CAWG Recommendation: YES
  - If the Project Sponsor is a TC, then the impact must be in the same direction as the original request by the Project Sponsor for transmission service.
  - If the Project Sponsor is not a TC, then the Project Sponsor should be required to specify the direction in which the overload is occurring that the upgrade is intended to fix.
  - This recommendation does not apply to the category 3 power devises.

Issue 1.D

- Does having Project Sponsors that are not requesting transmission service using the Directly Assigned Network Upgrade allow for them to subsequently request transmission service and receive revenue credits?
- CAWG Response: Yes, this is a possibility.
  - Short-term PTP transmission service can be used by the Project Sponsor for bilateral transactions.
  - Long-term PTP transmission service can also be requested by the Project Sponsor at a subsequent time.
  - A Project Sponsor that is a NITS customer may subsequently request a new DNR.

Issue 1.E

- Should Project Sponsors not taking transmission service with the Directly Assigned Network Upgrade be allowed to make a lump sum payment to the TO for the Network Upgrade?
- CAWG Recommendation: Yes, however, the SPP should offer a standard payment such as revenue requirements over the asset life, and any alternative payment method should be a contractual arrangement negotiated between the Project Sponsor and the TO.

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Issue 1.F

- Should there be a limit on the revenue credits for which the Project Sponsor is eligible?
- CAWG Recommendation: Yes
  - The current form of Attachment Z limits revenue credits to payments that exceed the standard rates for transmission service.
    - When a limit is placed on the amount of revenue credits received, the tariff must also allow for accumulation of the difference between that limit and revenue credits actually received, including interest. If this occurs, it must be clear that this accumulated amount is still a limit, not an amount due to the Project Sponsor at the end of some period of time.
  - The tariff should also include a limit on the time over which revenue credits can be received.
    - Recommended: The service life of the project
    - Consider a fixed time – 30 years?

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Issue 2

Issues Related to Subsequent Transmission Service in the Form of Request for New or Changed DRs or DNRs

Issue 2.A

- Should subsequent transmission requests for new or changed Designated Resources (DRs) that qualify for Base Plan Funding under Attachment J and that impact/use Directly Assigned Network Upgrades provide some form of payment such as revenue credits to the Project Sponsors?
- CAWG Recommendation: YES

  Transmission requests that qualify for Base Plan Funding include both:
  - ✓ NITS requests for new or changed DNRs.
  - ✓ PTP requests for new DRs.

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Issue 2.B

- For purposes of Attachment J determinations, what costs from Directly Assigned Network Upgrades should be included as attributable to subsequent requests for new or changed DRs?
- CAWG Recommendation: The costs from Directly Assigned Network Upgrades that should be attributable to subsequent requests for DRs should include:

(A) * (B)

A. The original cost of the Directly Assigned Network Upgrades minus straight-line depreciation over the period of time that these upgrades were in service.
B. The MW impact of the new or changed DR in the direction of the original overload as a percent of either”
   - The incremental MW capacity created by the upgrade in the direction of the original overload or
   - The MWs of additional transmission sold in the direction of the original overload.

Issue 2.B.1

- Why should straight-line depreciation be subtracted from the original cost of the Directly Assigned Network Upgrade?
- CAWG Response: The request for a new or changed DR may occur several years after the date at which the Directly Assigned Network Upgrade is made. There needs to be some mechanism that accounts for the age of the facilities in order that subsequent users not be over charged for their use of older facilities.
  - Straight-line depreciation is the most straight-forward approach.
  - There are depreciation formulas that are consistent with levelized fixed charge rates, but these front load depreciation costs and would tend to put too high of a value on the first years or use.

Issue 2.B.2

- Why are there two alternatives for use as the denominator for calculating the percent of costs attributable to subsequent DR use?
- CAWG Response: This is a difficult issue in that the current version of Attachment Z uses a form of this approach for subsequent PTP customers, but uses the sum of new transmission service on the upgrade as the denominator for NITS use.

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2.B.2 Pros and Cons

<u>% Added Capacity</u>

- Provides an answer whether or not the Project Sponsor is taking trans service at the time of subsequent use.
- Places new transmission at the lowest possible percent of cost at the outset and limits the revenue crediting to the original Project Sponsor.
- Does not have to deal with the issue of the Project Sponsors not rolling over firm PTP transmission reservations.

<u>% Transmission Service</u>

- Requires two allocations: one for when the Project Sponsor is taking trans service and another when not.
- The sum of transmission service approach results in a reduction to the percent of cost responsibility for existing uses as new transmission service is added. This would require revenue crediting back to all previous transmission customers as new customers are added
- Treats subsequent users as joint Project Sponsors with the original Project Sponsor and would eliminate waiting until a project is sponsored by another before requesting trans service.

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Issue 2.C

- Should the costs from Directly Assigned Network Upgrades attributable to new or changed DRs be subject to the safe-harbor provision of Attachment J?
- CAWG Recommendation: Yes.
  - The $180,000/MW cap should apply to all requests for new or changed DRs.
  - The cost from already constructed Directly Assigned Network Upgrades should be included along with the costs of any additional upgrades needed to grant this transmission service.
  - If the $180,000/MW cap is exceeded and a waiver is not granted, then the amount of the excess should be distributed in proportion to the costs of each project assigned to the DR request, including both Directly Assigned Network Upgrades and any new upgrades required.

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Issue 2.D

- Should “higher of” pricing apply to subsequent requests for a new or changed DR through PTP service?
- CAWG Recommendation: Yes
  - Applying Attachment J determines the amount of cost going into Base Plan Funding and the amount of costs (if any) that would be directly assignable to the PTP TC.
  - Any cost directly assignable to the PTP TC would then be compared to the tariffed rate for PTP service by applying usual “or” pricing procedures.
    - Customer will always pay at least the PTP rate.
    - If costs in above those included in Base Plan funding are higher than the PTP rate, then the TC pays the PTP rate plus an excess above that rate.

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Issue 2.E.1

- What are the dollar flows related to subsequent DR through PTP service using a Directly Assigned Network Upgrade?
- CAWG Response:
  - Project Sponsors continues to pay TO for the cost of the Directly Assigned Network Upgrade.
  - Cost of Directly Assigned Network Upgrades are assigned to subsequent PTP TC based on MW impacts.
  - Revenues from subsequent PTP DR Service
    - Rate via Base Plan Funding for Directly Assigned Network Upgrades go to SPP and are distributed to Project Sponsor
    - PTP "higher of" rate goes to SPP and is distributed to Project Sponsor up to the level at which the assigned costs are covered. Any remaining revenues go to other TOs.
      - For example, all of the costs of the DANU is covered by Base Plan Funding and this fully compensates the Project Sponsor via revenue credits. The PTP customer still must pay for long-term PTP service and the revenues from this payment go to other TOs.

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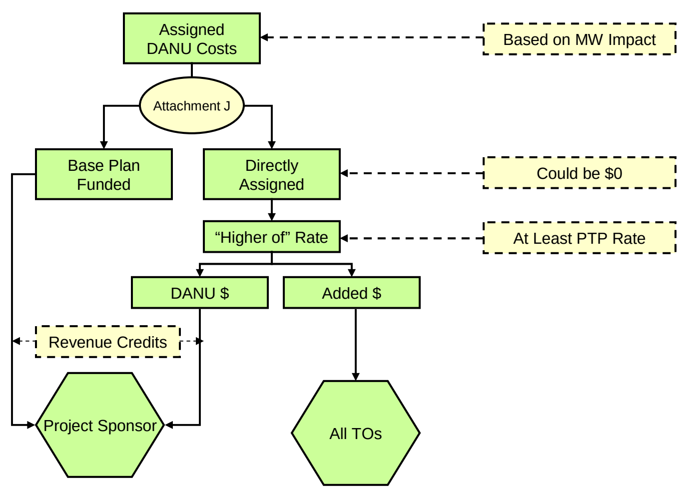
Diagram of Dollar Flows for New or Change DR through PTP Service



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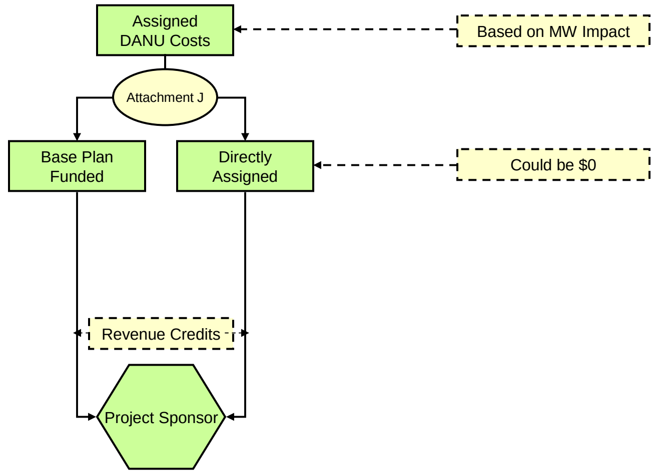
Issue 2.F

- Can a DNR request by a NITS customer result in a form of “and” pricing?
- CAWG Response: Yes.
  - When the assigned costs of the upgrades exceed the safe harbor limit of $180,000/MW a portion of the assigned costs of the upgrade above $180,000/MW are directly assigned to the NITS customer.
  - For Base Plan funding, the DNR request must exceed 5 years and total capacity cannot exceed 125% of forecasted peak demand. Otherwise, the NITS customer must either receive a waiver or pay for the entire upgrade.
    - At a later date the CAWG will discuss whether or not this payment should be prorated based on excess of reserve requirement or shortage on 5 year threshold.

Issue 2.F.1

- What are the dollar flows related to subsequent DNR through NITS service using a Directly Assigned Network Upgrade?
- CAWG Response:
  - Project Sponsors continues to pay TO for the cost of the Directly Assigned Network Upgrade.
  - Cost of Directly Assigned Network Upgrades are assigned to subsequent NITS customer based on MW impacts.
  - Revenues from subsequent NITS DNR Service
    - Rate via Base Plan Funding for Directly Assigned Network Upgrades go to SPP and are distributed to Project Sponsor
    - Any Excess above Base Plan Funding paid by NITS customer also goes to Project Sponsor

Diagram of Dollar Flows for New or Change DNR through NITS



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Issue 3

Issues Related to Subsequent Use of Directly Assigned Network Upgrades by New Load

Issue 3.A

- Should Directly Assigned Network Upgrades that displace reliability upgrades that would otherwise be needed result in revenue credits for the Project Sponsors?
- CAWG Recommendation: YES, to the extent that the reliability upgrades appear in the SPP Board approved plan at the time that the Project Sponsors submit their request for the Directly Assigned Network Upgrades. The cost of these reliability upgrades should be removed from the costs assigned to the Project Sponsor.
  - Upgrades that may not yet be in the approved SPP Board approved plan are discussed in the following slides.

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Issue 3.B

- Should subsequent use of Directly Assigned Network Upgrades by “New Load” of a Transmission Customer result in revenue credits to Project Sponsors?
- CAWG Recommendation: It appears from the FERC Order on Attachment Z that if “New Load” associated with NITS impacts the Directly Assigned Network Upgrade, the Project Sponsors should receive revenue credits.

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Issue 3.B.1

- What is the definition of “New Load” that meets the FERC Order for inclusion?
- CAWG Discussion:
  - Clearly the addition of a large, new load would qualify, but there is no designate/arbitrary megawatt floor in the tariff.
  - In addition, it would appear that it shouldn’t make any difference whether there is only one customer or thousands of customers that account for the new load.
  - In addition, it would appear that it shouldn’t make any difference whether the new load comes from existing customers or new customers.

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Issue 3.B.2

- How are upgrades required for load growth determined?
- CAWG Discussion: Generally there are three ways:
  1. Because of load growth utilities have to add DRs and new DRs can require upgrades.
  2. The addition of DRs is lumpy over time and between these additions, load growth can occur differently than expected. The portion of the SPP transmission plan related to reliability needs should identify and propose upgrades for any criteria violations related to load growth.
  3. Transmission Owners may have planning standards more stringent than SPP criteria in which load growth can result in upgrades.

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Issue 3.B.3

- Would it therefore make sense to simply include revenue credits from Base Plan funded projects that would otherwise be needed were it not for Directly Assigned Network Upgrades?
- CAWG Recommendation: Yes to the extent that the SPP planning process can identify these.
  - One way to do this is to exclude all Directly Assigned Network Upgrades from the SPP base case to identify criteria violations and needed upgrades.
  - Then answer the question, which of the needed upgrades are displaced by existing Directly Assigned Network Upgrades.

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Issue 4

Issues Related to Subsequent Use of Directly Assigned Network Upgrades by PTP Transmission Service – not DRs

Issue 4.A

- Should subsequent short-term PTP requests for transmission that impact Directly Assigned Network Upgrades provide revenue credits to the Project Sponsors?
- CAWG Recommendation: YES
  - Must impact the Directly Assigned Network Upgrades involved in the same direction as the initial overload.
  - The basis for such revenue credits should be the same as is included in the existing Attachment Z = (MW impact)*(Applicable PTP rate)
    - MW Impact = (% Distribution Factor)*(MW Transmission Service)
    - PTP rate = the applicable rate paid by the subsequent TC.

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Issue 4.B

- Should subsequent long-term PTP requests for transmission that impact Directly Assigned Network Upgrades provide revenue credits to the Project Sponsors?
- CAWG Recommendation: YES
  - Must impact the Directly Assigned Network Upgrades involved in the same direction as the initial overload.
  - The basis for such revenue credits is discussed in subsequent slides.

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Issue 4.B.1

- Should the applicable PTP rate include "higher of" pricing via applicable cost from Directly Assigned Network Upgrades?
- CAWG Recommendation: Yes. A request for long-term PTP service that impacts a Directly Assigned Network Upgrade should include an assigned portion of the costs in the calculation of the "higher of" price.
  - A request for long-term PTP service may (and is likely to) require additional upgrades. If the Directly Assigned Network Upgrades are excluded from the "higher of" calculations, then a proper allocation of revenue credits to Project Sponsors will not result.

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Issue 5

Issues Related to Revenue Credits Versus Lump-Sum Payments to Project Sponsors

Issue 5.A

- Should the RTWG consider a lump-sum payment to the Project Sponsor in lieu of revenue credits as an option when a portion of the revenue credits are coming from Base Plan Funding?
- CAWG Recommendation:
  - No, when the Project Sponsor is taking transmission service as a part of the original request or is paying for the Directly Assigned Network Upgrade costs over the life of the asset.
  - Yes, when the project sponsor has arranged a different payment schedule with the TO, but this should be in the contract between the Project Sponsor and the TO, not a SPP tariff option.
    - For example: If the Project Sponsor has arranged with the TO to make a lump-sum payment to fund the Directly Assigned Network Upgrade, then the Project Sponsor should consider negotiating the option of receiving back a lump-sum payment from the TO in lieu of revenue credits.

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