



CAWG MEETING

Nov. 29, 2006

Hyatt Regency DFW, Dallas, TX

11:00 – 5:00 pm

AGENDA

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|--|---------------|
| 1. Introductions | 11:00 - 11:10 |
| 2. Waivers Attachment J Waiver Factors and MOPC issues
Discussions lead by Mike Proctor | 11:10 –12:00 |
| 3. Lunch Break | 12:00 – 12:45 |
| 4. Waivers Attachment J Waiver Factors and MOPC issues
Discussions lead by Mike Proctor | 12:45 – 2:45 |
| 5. 15 minute break | 2:45 – 3:00 |
| 6. Benefit Metrics for Economic Upgrades
Discussions lead by Mike Proctor | 3:00 – 4:00 |
| 7. Open discussion on other cost allocation Issues
Discussions lead by Mike Proctor | 4:00 – 5:00 |

OG&E Waiver Discussion
CAWG Conference Call
Meeting Notes
November 20, 2006
10 a.m. – 12 noon

1. Full versus Partial Waiver: Tariff language states “those costs that exceed the Safe Harbor Cost limit may be classified in whole or in part as Base Plan Upgrade costs”

Discussion:

- **A partial waiver is appropriate via the tariff**

2. Taking into account the extent to which the duration of the TC’s commitment to the new or changed DR exceeds the five-year commitment period: Does consistency from one waiver request to another require a formula approach. If so, should this be in tariff?

Discussion:

- a. Consistent approach:

- Need a formula that depends on the years beyond five years.
- Struggle with the formula that depends on other aspects related to waiver request.
- SPP struggled with using a formula, as these waiver factors were meant to be broad brush.
- If we create a formula, then it should be put into tariff.

- b. Can the formula change based on other circumstances

- Formula should be based just on term of contract, not on other circumstances.

- c. Should regional impact/benefit be taken into account in the formula?

- No. This gets confusing.
- Concern with the measurement of the regional benefit.
- Regional impact is difficult to get a handle on and should not be included in the formula.

3. Wind Power as a special case: Accredited capacity < 10% of capacity requested for transmission service. Should wind power be given special treatment in the determination of accredited capacity? OG&E did not include this in its waiver request.

Discussion:

- a. SPP 12 MW vs. 8 MW

- The 8% capacity rating is a placeholder until more precise information. The 10% used because this is the right amount to use.
- SPP should not change the capacity rating of what is requested, unless they are convinced that the customer violated criteria 12.
- SPP should have followed criteria. OG&E used data from another wind farm to apply criteria 12 over last 3 summers to arrive at 8 MW rating.
- SPP has done an across the board calculation that shows 10% is an appropriate number and would use that in lieu of the customer making the calculation. Should not be taken away even if capacity rating falls.

- SPP and OGE should have come together and agreed on what the number is.
- b. Not in OGE's waiver request
 - Wind was filed in original waiver, protested at FERC and not included.
 - Did not include because it had been excluded from Attachment J.
 - OGE should have made the argument, but OGE didn't see the tariff as allowing them to play the wind card.
 - Customer may not have all the beneficial data that SPP has.
 - SPP has an obligation to advise the customer – do they want to modify their request.
- c. Should wind be given special consideration?
 - Support wind development in Texas, Missouri and Kansas.
 - Should give consideration to all green power – how much is difficult.
 - SPP studies wind and fossil at their name plates at all seasons through their planning horizons.
 - Should off-peak cases that cause upgrades be given a higher capacity rating for purposes of the Safe Harbor Cost Limit? Depends on the method used, but this would also require a change in the tariff.

What should the formula be on an interim basis?

- **Gene: PV of 180,000 spread out over number of years, but done in 5 year increments.**
- **Provide examples at Nov 29, CAWG Meeting.**

Safe Harbor Change

			\$/MW	per MW	For 8 MW
1					
2					
3	Add per yr				
4	2.50%				
5	0	0	\$180,000	\$0	\$0
6	1	\$4,500	\$184,500	\$4,500	\$36,000
7	2	\$4,500	\$189,000	\$9,000	\$72,000
8	3	\$4,500	\$193,500	\$13,500	\$108,000
9	4	\$4,500	\$198,000	\$18,000	\$144,000
10	5	\$4,500	\$202,500	\$22,500	\$180,000
11	6	\$4,500	\$207,000	\$27,000	\$216,000
12	7	\$4,500	\$211,500	\$31,500	\$252,000
13	8	\$4,500	\$216,000	\$36,000	\$288,000
14	9	\$4,500	\$220,500	\$40,500	\$324,000
15	10	\$4,500	\$225,000	\$45,000	\$360,000
16	11	\$4,500	\$229,500	\$49,500	\$396,000
17	12	\$4,500	\$234,000	\$54,000	\$432,000
18	13	\$4,500	\$238,500	\$58,500	\$468,000
19	14	\$4,500	\$243,000	\$63,000	\$504,000
20	15	\$4,500	\$247,500	\$67,500	\$540,000
21	16	\$4,500	\$252,000	\$72,000	\$576,000
22	17	\$4,500	\$256,500	\$76,500	\$612,000
23	18	\$4,500	\$261,000	\$81,000	\$648,000
24	19	\$4,500	\$265,500	\$85,500	\$684,000
25	20	\$4,500	\$270,000	\$90,000	\$720,000 ✓
26	21	\$4,500	\$274,500	\$94,500	\$756,000
27	22	\$4,500	\$279,000	\$99,000	\$792,000
28	23	\$4,500	\$283,500	\$103,500	\$828,000
29	24	\$4,500	\$288,000	\$108,000	\$864,000
30	25	\$4,500	\$292,500	\$112,500	\$900,000
31	26	\$4,500	\$297,000	\$117,000	\$936,000
32	27	\$4,500	\$301,500	\$121,500	\$972,000
33	28	\$4,500	\$306,000	\$126,000	\$1,008,000
34	29	\$4,500	\$310,500	\$130,500	\$1,044,000
35	30	\$4,500	\$315,000	\$135,000	\$1,080,000
36	31	\$4,500	\$319,500	\$139,500	\$1,116,000
37	32	\$4,500	\$324,000	\$144,000	\$1,152,000
38	33	\$4,500	\$328,500	\$148,500	\$1,188,000
39	34	\$4,500	\$333,000	\$153,000	\$1,224,000
40	35	\$4,500	\$337,500	\$157,500	\$1,260,000

Is Load LMP A Proper Measure for Benefits From Transmission Upgrades?

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What Do Δ LMPs Measure?

- When new transmission is added,
 - Some of the LMPs will increase (most likely in sub-regions where exports have increased); and
 - Some of the LMPs will decrease (most likely in sub-regions where imports have increased).
- Does this mean that where LMPs increased there is a loss of benefits and where LMPs decreased there is a gain in benefits?

Suppose LMPs Increase in a Sub-Region with Increased Exports

- Either the Load will benefit from the additional profits earned from the sale of more exports at higher prices; or
- Load will be indifferent if those additional profits are not passed on as a reduction in power supply costs.
- What is the argument that sees a detriment to the load from increasing export capability from the sub-region?

The Well *Worn Out* Argument

- *“They are exporting out all of our cheap power to where they can make a higher profit rather than leaving it in the area to serve load.”*
 - At best, this is a protectionist argument that takes the position that the local areas have rights to the cheaper power located in their area.
 - This is the case with the regulated utility, but in the case of a regulated utility, there is no loss from increased exports; instead, there is gain from increased sales.

The Second Argument

- Increases in spot market prices will be followed by higher long-term contract prices for power.
 - While there is general agreement that spot market price increases will result in higher long-term contract prices for power, this is an argument that relates to overall spot prices, not to **locational** differences in spot prices?
 - With respect to overall price levels, adding transmission will have the impact of lowering spot market prices as competition for power is increased.

Suppose LMPs Decrease in a Sub-Region with Increased Imports

- The extent to which load can substitute lower cost imports for own generation, load will benefit.
- This benefit is on the margin and is not measured by the change in LMPs times the entire load.

Conclusions

- Changes in Load LMPs at specific locations is not a good measure of benefits from expanding transmission capability.
- Overall, expanding transmission capability results in greater wholesale competition, and the overall level of spot prices is an indicator of this increase in wholesale competition.
 - HOWEVER: Deriving a link between overall spot prices and benefits is best measured in terms of the impact on adjusted Production Cost Savings.

Cost Allocations

- What is the most appropriate level to allocate costs from economic upgrades?
 - Load-Serving Entities?
 - Pricing Zones?
 - Sub-regions within SPP?
 - Region-wide?
 - Combinations of the above?

Level of Aggregation for Measuring Benefits

- Most disaggregated: Load Serving Entity
 - Requires matching DRs with loads
 - Requires calculating hourly differences between loads and generation from DRs
- Next Most disaggregated: Pricing Zones
 - Assumes generation in pricing zone is used to serve load in pricing zone
 - Requires calculating hourly differences between loads and generation in pricing zones.