OG&E Kildare – White Eagle Sponsored Upgrade Questions

I. Rate Treatment

i. Has it been confirmed that the Kildare – White Eagle project was not part of a DISIS process?

Response: The upgrade was identified in the DISIS-2016-001 study as being necessary to accommodate request GEN-2016-071. However, there has been no commitment to construct the upgrade through an executed Generator Interconnection Agreement.

ii. In the case of a rebuild, shouldn't the need for the project be evaluated in connection with the project's interconnection service to determine if the project should be a Network Upgrade under the relevant Generation Interconnection Agreement?

Response: As stated above, the upgrade has been evaluated in the GI process and would be classified as a Network Upgrade if the customer had executed an applicable GIA.

iii. Has it been confirmed that the Kildare – White Eagle project meets the criteria for being a Sponsored Upgrade? *See* (Page 3 of: https://www.spp.org/documents/56695/twg%20minutes%20&%20attachments%2020180314.pdf).

Response: Yes. A project cannot be a Sponsored Upgrade if it is included in the current SPP Transmission Expansion Plan (STEP), based on Attachment O, Section IV.1. GI projects are included in the STEP once they either have an NTC or are documented in an executed Generator Interconnection Agreement (GIA). That has not yet happened for the Kildare – White Eagle rebuild. After being identified in the DISIS study, the Kildare – White Eagle rebuild would need to be evaluated in a Facility Study and then included in an executed GIA before it is part of the STEP. Since the upgrade is not part of the STEP, it is eligible to be a Sponsored Upgrade.

iv. How will OG&E's retail and wholesale transmission customers be held harmless by the change in rate treatment?

Response: In accordance with Section V.A of Attachment J, the Project Sponsor must commit to bear Directly Assigned Upgrade Costs (DAUC) to compensate the Transmission Owner that constructs the Sponsored Upgrade. The DAUC is calculated based on the present value of the revenue requirements of the Sponsored Upgrade over 20 years, including full recovery of the investment amount, return on the investment, operating and maintenance expenses, and taxes.

v. How will OG&E be made whole by the retirement & salvage of an existing Transmission System facility being removed from OG&E's rate base and replaced by a Sponsored Upgrade with zero rate base value?

Response: This may be handled in the same manner as retirement and salvage associated with any previous sponsored upgrade on the OG&E system or Service Upgrade funded through DAUC that involved replacement of an existing facility. The accounting treatment for utility asset retirement often *does not result in a change in the utility's net plant or rate base when retirement occurs. The process followed for the sponsored upgrade at the Arcadia Substation should provide additional guidance.*

vi. Can OG&E include removal, salvage costs and ROE in its calculation of Project Sponsor's Payment?

Response: OG&E can include ROE in its calculation of the Upgrade Sponsor's payment. Section V.A of Attachment J provides for the Transmission Owner's charge rate to be utilized, which can include the Transmission Owner's approved rate of return. This is consistent with the manner in which the sponsorship payments of the Northwest-Woodward line were calculated.

The Tariff does not contain generally applicable instructions for Transmission Owner accounting, so it does not provide guidance regarding treatment of salvage and removal cost for any type of upgrade. It may be appropriate for OG&E to handle salvage and removal cost for a Sponsored Upgrade in the same manner in which it would handle salvage and removal for any other type of upgrade directed by SPP where an existing facility is replaced.

vii. If OG&E cannot include removal and salvage costs in its calculation of Project Sponsor's Payment, what mechanism will be used to ensure that OG&E can seek to recover such costs to avoid having retail and wholesale transmission customers absorb those costs?

Response: See SPP's answer to question I.vi.

viii. If the initial Sponsor payment is greater than the final cost, will OG&E be required to pay refunds with interest? If so, what interest rate is used.

Response: Section V.A of Attachment J provides for true-up of the payment amounts to the extent the cost estimate is either higher or lower than the actual construction cost. The payment amounts are based on present value, so the trued-up payments would reflect the discount rate embedded in the present value calculation.

II. Credit Protections

i. What happens if the Project Sponsor defaults on the payment?

Response: The payments would be the Project Sponsor's obligation pursuant to the executed and FERC-approved agreement under the Tariff. Therefore, non-payment would be considered a Tariff default. The remedies would be to liquidate the financial security required under Section 4.0 of Attachment J's Schedule 1 (the Agreement for Sponsored Upgrade) and seek regulatory or civil judgment.

ii. Who bears the risk of such default?

Response: The Transmission Owner bears risk associated with default, which is the reason for the financial security requirement in the Agreement for Sponsored Upgrade.

iii. How does SPP determine the amount of a Letter of Credit or other financial security?

Response: The amount of security would be based on the Upgrade Sponsor's obligation to pay the present value of the revenue requirements of the upgrade.

iv. How does SPP determine if a form of security, other than a Letter of Credit, is an acceptable form of security?

Response: At this time, SPP accepts only cash or a Letter of Credit as financial security.

v. Can a Transmission Owner be listed as a beneficiary under the Letter of Credit?

Response: The Tariff does not contemplate that financial security is held by any party other than the Transmission Provider. This extends to both the Irrevocable Standby Letter of Credit (Attachment X, Appendix C) and the Credit and Security Agreement (Attachment X, Appendix B).

vi. If OG&E cannot be listed as a beneficiary under the Letter of Credit, or if SPP accepts another form of security that does not make OG&E a direct beneficiary, how will OG&E be held harmless in the event of a default?

Response: OG&E's protection against default risk would be similar to a situation in which OG&E constructed a Service Upgrade funded by DAUC.

III. Revenue Credits

i. How does SPP determine that a Sponsored Upgrade becomes a Creditable Upgrade?

Response: A Sponsored Upgrade is not automatically a Creditable Upgrade nor is it automatically eligible to receive revenue credits since Sponsored Upgrades are not built to satisfy a need identified by the Transmission Provider. For a Sponsored Upgrade to become a Creditable Upgrade, the Transmission Provider must determine that the Sponsored Upgrade is needed as part of the Transmission System. At the time the Sponsored Upgrade becomes a Creditable Upgrade, the Transmission Provider shall determine the direction of flow which caused the Creditable Upgrade to be needed and the capability in the opposite direction. (Attachment Z2, Section I.B.)

ii. At what point in time will the Kildare – White Eagle 138 kV rebuild be analyzed to determine whether it is eligible for Z2 credits or Incremental Long Term Congestion Rights ("ILTCR")?

Response: For Z2 credits, SPP analysis would begin after the execution of the Agreement for Sponsored Upgrade in which the Project Sponsor agrees to bear these Directly Assigned Upgrade Costs. For ILTCR, SPP will calculate candidate ILTCRs prior to the execution of the Agreement to enable the Project Sponsor to make an informed decision. The Project Sponsor or the GI customer must request ILTCR analysis prior to executing the Sponsored Upgrade agreement or GI agreement.

iii. How are Z2 credits calculated for a rebuild? Will the transmission customers currently using the facility be held harmless from the need to pay credits for their historic use of the facility?

Response: Credit payment obligations are assigned only to new transmission service reservations making use of the upgrade per the provisions of Attachment Z2.

iv. Can another Generation Interconnection Customer be allocated Sponsored Upgrade costs in connection with the Kildare – White Eagle 138 kV rebuild if such upgrade is necessary to accommodate its interconnection request? If another Generation Interconnection Customer is allocated some of these Sponsored Upgrade costs, how would that affect the credits associated with the Sponsored Upgrade? If the credits are adjusted, would the Agreement for Sponsored Upgrade and/or the Generation Interconnection Agreement need to be revised?

Response: If the upgrade becomes a Sponsored Upgrade, cost is only allocated to the Project Sponsor. Reimbursement to the Project Sponsor occurs only through Z2 credits from subsequent transmission service reservations or through the ILTCR process. Subsequent GI customers would not be responsible for any part of the cost.

v. If OG&E is required to restore this upgrade during the course of the Project Sponsor's obligation to make Project Sponsor's Payments, how would such restoration affect the payments?

Response: As in the case of a Service Upgrade funded through DAUC, the method of recovery of the cost for any restoration requiring capital expenditures can be determined in view of the specific situation. As necessary, a filing may be submitted to the FERC to request such cost recovery.

IV. Miscellaneous

i. Does the Project Sponsor have the ability to assign the Agreement for Sponsored Upgrade to another entity? The Agreement for Sponsored Upgrade has no assignment provision.

Response: SPP's view is that the agreement is not assignable because the agreement in the Tariff does not include an assignment provision. If there is a desire to include an assignment provision, the agreement can be modified to include an assignment provision.

ii. If the Agreement for Sponsored Upgrade can be assigned, how would the Letter of Credit/other form of security acceptable to SPP be handled?

Response: SPP does not view this agreement as being assignable as drafted in the Tariff. If the agreement is modified to include assignability of the agreement, then the Letter of Credit/security would need to be addressed. If the responsibility is assigned, the new entity would have to be able to fulfill the same financial obligations as the original entity.

iii. How would the Project Sponsor's Payment handled if the Agreement for Sponsored Upgrade is assigned?

Response: SPP does not view this agreement as being assignable as drafted in the Tariff. If the agreement is modified to include assignability of the agreement, then the payment obligation would have to be addressed.

iv. Has a congestion analysis been performed to determine the impact of this upgrade on the impact on the local LMPs?

a. If so, what did this analysis show?

Response: Attachment O, Section IV only requires that SPP evaluate the reliability impact of the proposed Sponsored Upgrade and does not require that SPP conduct any congestion analysis. However, analysis using existing models indicates that no additional congestion would be created by the proposed upgrade of the Kildare – White Eagle line.