

Cost Allocation Alternatives: Process for CAWG and RSC

CAWG Meeting
February 21, 2007

Process Defined

Process as defined herein involves to basic components:

1. Content – what is to be considered
2. Schedule – when and by whom

Content Considerations

- Benefit to Cost Ratio Qualifications
- Beneficiaries Calculations
- Cost Allocation Alternatives
- Applying Beneficiaries Tests

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Benefit to Cost Ratio

- Benefits metrics (e.g., Adjusted Production Cost Savings) tend to measure maximum theoretical benefits
 - Treatment of Ancillary Services
 - Differences between bids and costs
 - Factors that result in higher costs
 - Absence of Day-Ahead market
 - Load forecasting
 - Others
- Need to determine B/C ratio qualification for cost allocation; e.g., 1.25 to 1
- Need to determine if B/C ratio qualification applies to projects vs. portfolios of projects.
 - Can a project qualify if $B > C$, but an overall portfolio must meet a $B > 1.25 * C$ standard?

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Beneficiaries Calculations

- Key is beneficiaries % of portfolio benefits.
 - What benchmarks are needed at the load-serving entity level of granularity to provide good checks and balances?
 - What are the key uncertainties for which sensitivities need to be performed?
- Need to discuss how portfolio is designed.
 - High voltage backbone system and lower voltage systems needed to deliver benefits to customers.
 - What design elements are necessary to produce a “balanced” portfolio – one that results in a fairly uniform distribution of benefits?
- Need to determine importance of the timing of projects within the portfolio to cost allocation.
 - Early beneficiaries vs. Later beneficiaries

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Cost Allocation Alternatives

- Allocation of Higher Voltage (345 kV ↑) Backbone System
 - Beneficiaries Pay
 - Postage Stamp
 - Usage Charges (Load Flow)
 - e.g., TOU or MWh charges on imports and exports
 - Combinations of Above
- Allocation of Lower Voltage Delivery Systems
 - Beneficiaries Pay
 - License Plate
 - e.g., costs allocated to zone in which facilities are built
 - Usage Charges
 - Combinations of Above
- Combined or Portfolio Allocations
 - All of the above w/o separation based on voltage

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Applying Beneficiaries Tests

- Portfolio Calculations
 - Period for calculation (7-10 years)
 - Phase-in of cost allocation
- Criteria for Cost Allocation
 - Allocated costs cannot exceed expected benefits
- Adjustments to Basic Cost Allocation
 - Adjustments to basic cost allocation to meet criteria

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Schedule Considerations: CAWG

- Overall Time Frame
 - Complete alternatives by July 2007 RSC meeting.
 - Final determination by October 2007 RSC meeting
- Sequencing of Discussions on Contents
 - March: Emphasis on B/C Qualification
 - April: Emphasis on Beneficiaries Allocations
 - May-July: Emphasis on Cost Allocation Alternatives
 - Aug-Oct: Application of Cost Allocation Alternatives to proposed portfolios with emphasis on Beneficiaries Tests – more details at August meeting.
- Number of meetings per Month
 - One meeting face-to-face (day before RTWG meeting)
 - Follow-up teleconference meeting to discuss recommendations, with face-to-face as needed.

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Schedule Considerations: RSC

- Presentation of Results to RSC
 - Each month present recommendations to the RSC
 - Determine whether this needs to be an “official” RSC meeting – probably done by teleconference
 - At RSC face-to-face meeting in April: Present recommendations made thus far for official vote of approval.
 - At RSC face-to-face meeting in July: Present recommendations for official vote of approval on Cost Allocation Alternatives.
 - At RSC face-to-face meeting in October: Present final recommendation for official vote of approval.

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SPP Staff Inputs to Process

- Critical to have SPP Staff at March and April meetings to discuss technical aspects of calculating benefits and providing input to recommendations.
- Critical to have SPP Staff applying cost allocation alternatives to portfolios and presenting results during the August to October CAWG meetings.

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