
Economic Transmission Expansion Policy For The SPP RTO

**Cost Allocation Working Group
June 27, 2007**

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Presenting Utilities

- ◆ **AEP, AQUILA, EDE, KCP&L, MWE, OG&E, Westar, XCEL**

- ◆ **Most endorsers are regulated by the following State Commissions and FERC:**
 - Arkansas
 - Kansas
 - Louisiana
 - Missouri
 - New Mexico
 - Oklahoma
 - Texas

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Presentation Objectives

- ◆ Present generally acceptable consensus positions of specific utilities regarding Economic Transmission Expansion within the SPP footprint.
- ◆ Issues and positions discussed represent a minimum consensus on only these issues/concepts addressed by these jurisdictional utilities.
- ◆ Each utility may have a different view regarding portfolio makeup and guidelines, therefore further consensus could not be reached by this meeting.
- ◆ Present transmission expansion concepts/suggestions/recommendations for further discussion by the CAWG.

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Fundamental Beliefs & Concerns

- ◆ Transmission Expansion is important to maintaining competitive wholesale pricing, consideration of future market development, and access to generation.
- ◆ Transmission cost is less than 15% of delivered cost of energy
- ◆ Concerned about application of existing Base Plan cost allocation methodology to the Economic Project Policy.
- ◆ Economic projects of today will become reliability projects of tomorrow.
- ◆ Resolution of cost allocation with Seams and Contract Services customers difficult to accomplish, time consuming and complicated.

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Fundamental Beliefs & Concerns

- ◆ **Expansion of Transmission System based on Production Benefits/Revenue Requirement economics should be “regional(1.25/1) and zonal(1.0)” with a less complex implementation**
 - However, regional and zonal production benefit to cost analysis should not be the only guideline for project inclusion in the regional Economic Portfolio.
- ◆ **Concerned about “inequitable” balance of zonal benefits to costs**
- ◆ **Re-evaluation of the implementation of the Economic Portfolio should not be required;**
 - i.e. No looking back!
- ◆ **Proposed regional economic project should be “quantitatively” justified for regional Economic Portfolio inclusion with some flexibility to improve benefits to costs for a zone(s), as needed.**
- ◆ **Cost Allocation and Recovery – Simpler the better.**

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Economic Portfolio Time Horizon and Pricing

- ◆ **Develop an “Initial” Economic Portfolio to be completed within 10 years in conjunction with the SPP Transmission Expansion Planning process**
- ◆ **All i) new 345kV and higher voltage facilities/projects (including xfmers and terminal equipment), and ii) underlying upgrades required to integrate such 345kV projects that meet the Economic Portfolio Criteria should be funded via Economic Upgrade Policy**
- ◆ **Economic Upgrade Cost Allocation – 100% Postage Stamp based on load ratio share within SPP.**

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Economic Portfolio Time Horizon and Pricing

- ◆ Economic projects “not” included in portfolio to be funded by zone/project sponsor(s) pursuant to Attachment Z (less than 345kV)
- ◆ Analyze SPP regional (excluding 1st tier benefits) and each zone rate impact/allocation as a result of the projects in the Economic Portfolio.
 - Identify 1st tier seams benefits separately

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“Possible” Economic Portfolio Criteria

- ◆ Projects come from STEP process with consideration given to EHV study as well as other sub-regional studies.
- ◆ New 345kV and higher voltage facilities “and underlying upgrades required to integrate such 345kV facilities”
- ◆ Initial Portfolio should have a group of projects that average in total 1.25 to 1 SPP regional benefit to cost (excludes 1st tier benefits) based on “to be agreed upon” study scope (production cost savings, losses, revenue requirements, 10 years, etc).
- ◆ Reliability Projects identified in the previous STEPS that qualify as economic projects should be considered for “advancement” for completion as part of the Initial Portfolio.
- ◆ In order to achieve a reasonably balanced economic portfolio that benefits all zones, the portfolio criteria may need to have some flexibility such that projects below 345kV can be included in the portfolio such that “no” zone’s costs exceed the expected benefits(1.0/1).

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Components of a successful plan

- ◆ **Reliable and Cost Effective transmission system expansion to support the SPP RTO's long term regional growth needs.**
- ◆ **Gold plating and unbalanced receipt of benefits or allocation of costs to members and seams should be avoided.**
- ◆ **CAWG approval of "initial" economic portfolio criteria" with State Commission buy-in early in process "Essential".**
- ◆ **Seams Participation is Complicated and must be addressed in Seams Agreements.**

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Components of a successful plan

- ◆ **Benefit to Cost for the Initial Economic Portfolio at least 1.25(total SPP regional) and 1.0 to 1(per zone) over a 10 year period based on production cost savings and revenue requirements.**
 - In order to achieve a more acceptable benefit to cost ratio for a zone, it might be appropriate to allow for some relaxation of the Criteria, i.e.
 - 12 year vs. 10 year payback (ratio less than 1.0),
 - Maximum allocation of costs capped at calculated zonal benefits over the 10 year period – complicated and requires further discussion.

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Components of a successful plan

- ◆ Reasonably balanced “initial” economic portfolio with all “zones” benefiting whereby allocated costs “do not” exceed expected benefits for each zone.
- ◆ CAWG/RSC need to assist in obtaining buy-in from their respective Commissions on an SPP RTO Economic Portfolio Policy, and proactively assist/expedite CCN approvals, siting and right of way procurement and cost recovery solutions, as appropriate and as required.

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Issues For Further Discussion/Consideration

- ◆ Expansion of “Initial” Economic Portfolio completed annually based on either a individual project or grouping of projects – requires further discussion.
- ◆ Projects identified in future STEPs ‘added’ to initial portfolio that will individually meet a 1.25 to 1 ratio?
 - Consider minimum thresholds for benefit to cost and voltage of a zonal project to be included in economic portfolio that will provide at least equal benefit to costs for a zone – while maintaining the overall “regional” portfolio benefit to cost.
- ◆ Seams Involvement – SPP needs to take a lead role in working out project details, cost allocation, and cost recovery terms and conditions regarding transmission expansion with Seams
 - For example, SPP internal upgrades required resultant of a Seams upgrade could be included in the Economic Portfolio

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Issues For Further Discussion/Consideration

- ◆ **Cost allocation for upgrades “not” required for integration into the Economic Portfolio, such as off ramp/delivery facilities**

- ◆ **CAWG consider a future “reform” of existing Base Plan Funding Criteria to include any 345kV and above (and underlying/seams projects) to “match” Economic Portfolio Cost Allocation method, i.e. 345kV project is cost allocated the same regardless if it is for transmission service, reliability standard compliance, or the economic portfolio.**

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Summary & Recommendation

- ◆ **Reasonably balanced 10 Year “Initial’ regional portfolio with consideration given to STEP, EHV, and sub-regional study processes. 1.25/1 Regional Benefit to Cost and 1.0 to 1 Zonal Benefit to Cost**

- ◆ **345kV and above transmission facilities and required associated underlying upgrades to integrate such facilities**
 - Postage Stamp/Load Ratio allocation funding w/ SPP

- ◆ **Economic Portfolio Criteria established with some zonal project inclusion flexibility allowable to better balance the portfolio for the zones**

- ◆ **Seams should participate – one way or another.**

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What the Objectives for Transmission Funding and Cost Allocation?

- Be Fair To Ratepayers
 - Avoid burdening customers who don't benefit from an upgrade
- Enhance Reliability
 - Don't discourage needed upgrades
- Promote Healthy Competition
 - Don't create barriers to entry by new competitors, or put existing competitors at an unfair disadvantage
- Make Best Use Of SPP Resources
 - Avoid diverting SPP resources into activities that don't benefit consumers

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Benefits of Region-Wide Roll-in

- Uniformity
 - All load is subject to the SPP planning and expansion funding procedures, and over the long term, all load serving entities will need upgrades
- Simplicity
 - Avoids need to aggregate requests, assign costs, and solicit subscribers, which adds months of uncertainty to the planning process, and can return planners to "square one"
- Consistency with service
 - Aligns pricing with regional nature of SPP service

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Benefits of Region-Wide Roll-in

(cont'd)

- Promotes expansion
 - By spreading costs broadly, roll-in does not discourage needed expansion
 - Provides certainty to lenders and investors
- Avoids rate shock
 - Broad spreading of costs eliminates rate shock to any one zone
- Minimizes controversy
 - Avoids diversion of SPP resources into controversial and resource intensive process of identifying “benefits” and “beneficiaries”

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Summary of Proposal

- New Facilities (other than directly-assigned facilities)
 - Costs recovered through SPP-wide regional rate
 - Limited to facilities constructed pursuant to SPP Regional Plan
- Existing facilities
 - Costs recovered through “zonal” rates
 - No facilities built after effective date will be added to zonal rates
 - Some adjustment to zonal rates for new owners and/or zones

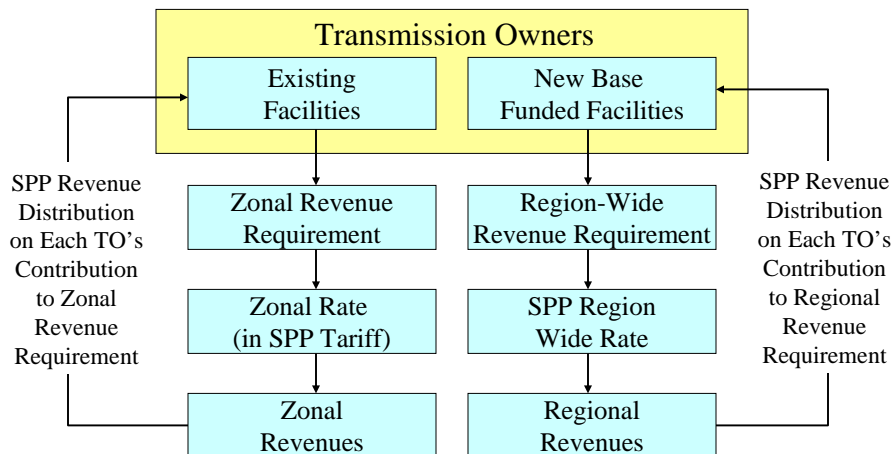
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Summary of Proposal (cont'd)

- Transition to single SPP-wide regional rate
 - Occurs over time period determined by depreciation or specified time period
 - Avoids cost shifting for facilities built prior to adoption of Regional Planning
- Direct Assignment of cost for facilities that benefit loads outside the region

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Loads Pay Two-Part Rate for SPP Transmission Service



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Why Rolled-in Treatment for Upgrades Related to Long-Term Firm Service “Sinking” within SPP?

- Broadly distributed benefits
 - Ensure firm service to SPP-area loads
 - Enhance robustness of regional grid, make more resources available to the region
 - Some limitations on request-related facilities subject to roll-in may be appropriate
- Uniformity of treatment
 - All SPP-area loads subject to regional planning
 - All loads eventually need upgrades to bring in resources
 - Uniform treatment provides stability, predictability
 - Economic upgrades provide reliability once built

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Why Rolled-in Treatment for SPP-Initiated Economic Upgrades?

- Variety and distribution of benefits
 - Enhance grid’s ability to bring competitive resources to all consumers; thus, benefits multiple parties
 - Contribute to a more robust network
- Promote construction of beneficial projects
 - SPP model will identify clearly economic projects
 - Identifying beneficiaries, securing commitments takes time and resources
 - Roll-in avoids delay, gets facilities built sooner

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Region-Wide Rolled-in Upgrades

- Limits on construction are part of the planning process.