Comparison of Cost Allocation Proposals
Presented at June 27, 2007 CAWG Meeting

Proposed Components	SPP	TOs	TCs
Rate Design	Postage Stamp Rate	Postage Stamp Rate	Postage Stamp Rate
Voltage Restrictions	345 kV only	345 kV, transformers, & terminal equipment Lower voltage needed to integrate high voltage upgrade or to balance portfolio	All transmission level upgrades
Benefits	Expanded List	10 yr. time horizon Must be measurable	Improved competition
Costs	E&C Costs	10 yr. rev. req.	
B/C Criteria	B/C ≥ 1 for each project included	B/C ≥ 1.25 for portfolio B/C ≥ 1? for individual projects	
Beneficiaries Pay		B/C ≥ 1 in each pricing zone	Avoid calculating benefits by beneficiaries "Broadly distributed benefits"
Reliability Upgrades		Included if B/C ≥ 1?	Includes all qualified economic and reliability upgrades
Seams Allocations		Exclude 1st tier benefits unless cost allocation to beneficiaries in place	Include a direct assignment of cost to benefiting loads outside SPP
Other Restrictions	Annual budget cap of $500 million in E&C costs	Approved projects go forward without subsequent review. Early buy-in by State Commissions	Some limitations on request-related facilities may be appropriate.

Summary of Cost Allocation Proposals for Economic Upgrades

CAWG Report to SPP RSC

July 23, 2007

Kansas City, MO

Three Proposals Presented

- SPP Staff Proposal
- Transmission Owner's Proposal
  - AEP: American Electric Power
  - Aquila
  - EDE: Empire District Electric
  - KCPL: Kansas City Power & Light
  - MWE: Midwest Energy
  - OG&E: Oklahoma Gas & Electric
  - Westar
  - XCEL: Southwest Public Service
- Transmission Customer's Proposal
  - AEC: Arkansas Electric Cooperatives
  - OMPA: Oklahoma Municipal Power Agency
  - ETC: East Texas Cooperatives
  - LAF: City of Lafayette

Same Rate Design

- All three proposals are based on a region-wide POSTAGE STAMP rate design.
  - Uniform per MW charge to 12 CP demands of all transmission customers (sometimes referred to as a load ratio share)
- HOWEVER, all three proposals differ on transmission upgrade facilities that would be subject to this rate design.

3

Voltage Restrictions

- SPP: Restricted strictly to 345 kV and above facilities (e.g., excludes step down transformers and terminal equipment).
- TOs: Includes 345 kV and above facilities/ projects (including transformers and terminal equipment) and underlying lower voltage upgrades required to “integrate” such 345 kV projects
  - “Integrate” will be discussed at the July 25 CAWG meeting.
  - May also include lower voltage project if needed to balance the portfolio.
- TCs: Only voltage restriction is that upgrades be at transmission level; i.e., is not restricted to EHV projects.

4

Benefit and Cost Measures

- SPP:
  - Benefits
    - Adjusted Production Cost Savings
    - Losses (both energy and peak)
    - Unit Commitment
    - Planning Reserves
    - Storm Hardening (insurance approach)
    - Environmental (emissions costs and carbon tax)
    - Societal benefit (reduced unserved energy, economic development and value to neighboring systems)
    - Homeland Security
    - Black Start, Voltage Control & Ancillary Services
  - Costs measured as Engineering and Construction costs
- TOs:
  - Benefits measure over 10 year planning horizon
  - Costs measured as revenue requirements over same 10 year period.
  - Willing to include additional benefit measures that can be properly quantified.
- TCs:
  - Benefit included improvement in wholesale competition; (i.e., increased access to competitive generation alternatives).

5

Economic Portfolio Criteria

- SPP: All projects that meet a benefit to cost ratio of 1 to 1. Benefit metrics should include more than production cost savings.
- TOs: Economic portfolio should exceed a benefit to cost ratio of 1.25 to 1. This allows projects with less than 1.25 to be included.
  - Further discussion is needed on the minimum B/C allowed for a project to be included in the portfolio.
- TCs: Economic portfolio criteria was not discussed.

6

Beneficiaries Pay Criteria

- SPP: Not discussed.
- TOs: Requires the Portfolio of economic upgrades/projects to meet a benefit to cost ratio in each pricing zone of 1 to 1. This assumes that the costs are allocated to the zones via a region-wide postage stamp rate.
- TCs: Should avoid a "resource intensive process of identifying 'benefits' and 'beneficiaries.'" Supports the more general concept of "broadly distributed benefits."

7

Reliability Upgrades

(Included in STEP)

- SPP: Not discussed.
- TOs: Reliability upgrades that meet the economic portfolio criteria (Average B/C >1.25 and individual B/C >1?) would be included.
  - Would not include upgrades required for new or changed DRs.
- TCs: Includes all qualified economic and reliability upgrades.
  - Would also include upgrades required for new or changed DRs.

8

Seams Allocations

- SPP: Not discussed
- TOs: Should exclude 1st tier benefits from benefit cost calculations, unless there is a seams agreement in place for allocating costs to 1st tier beneficiaries.
  - Emphasis on AECI, SWPA, Entergy, MISO
- TCs: Include a direct assignment of cost for facilities that benefit loads outside the region.

9

Other Restrictions

- SPP: Annual Engineering and Construction cost cap of $500 million.
- TOs: Portfolio based on 10 year planning horizon. Once the portfolio is approved, these projects will go forward without subsequent review; i.e., “buy-in early by State Commissions.
  - This concept will be further discussed at the July 25 CAWG meeting.
- TCs: Some limitations on request-related facilities subject to roll-in may be appropriate.

10

Summary of Proposals

Proposed Components	SPP	TOs	TCs
Rate Design	Postage Stamp Rate	Postage Stamp Rate	Postage Stamp Rate
Voltage Restrictions	345 kV only	345 kV, transformers, & terminal equipment Lower voltage needed to integrate high voltage upgrade or to balance portfolio	All transmission level upgrades
Benefits	Expanded List	10 yr. time horizon Must be measurable	Improved competition
Costs	E&C Costs	10 yr. rev. req.	
B/C Criteria	B/C ≥ 1 for each project included	B/C ≥ 1.25 for portfolio B/C ≥ 1? for individual projects	
Beneficiaries Pay		B/C ≥ 1 in each pricing zone	Avoid calculating benefits by beneficiaries "Broadly distributed benefits"
Reliability Upgrades		Included if B/C ≥ 1?	Includes all qualified economic and reliability upgrades
Seams Allocations		Exclude 1st tier benefits unless cost allocation to beneficiaries in place	Include a direct assignment of cost to benefiting loads outside SPP
Other Restrictions	Annual budget cap of $500 million in E&C costs	Approved projects go forward without subsequent review. Early buy-in by State Commissions	Some limitations on request-related facilities may be appropriate.

11