



1000 Center St.

Little Rock, AR 72201

**Southwest Power Pool
REGIONAL STATE COMMITTEE
June 28, 2007
Teleconference**

• M I N U T E S •

Administrative Items:

Members in attendance or represented by proxy were:

- Julie Parsley, Public Utility Commission of Texas (PUCT)
- Sandra Hochstetter, Arkansas Public Service Commission (APSC)

Others in attendance:

- Tom DeBaun, Kansas Corporation Commission
- Larry Holloway, Kansas Corporation Commission
- Jason Gray, Kansas Corporation Commission
- Adrienne Brandt, Public Utility Commission of Texas
- Mike Proctor, Missouri Public Service Commission
- Greg Meyer, Missouri Public Service Commission
- Sam Loudenslager, Arkansas Public Service Commission
- Harry Skilton, SPP Director
- Quentin Jackson, SPP Director
- Josh Martin, SPP Director
- David Fliescher, Secretary of Energy (Oklahoma)
- David Kays, OG&E
- Phil Crissup, OG&E
- Richard Spring, Kansas City Power and Light
- Steve Owens, Entergy
- Terri Gallup, AEP
- Tom Stuchlik, Westar
- Bary Warren, Empire
- Les Dillahunty, Southwest Power Pool, Inc.
- Nick Brown, Southwest Power Pool.
- Keith Tynes, Southwest Power Pool
- Cheryl Robertson, Southwest Power Pool

President Julie Parsley called the meeting to order at 9:30 a.m. Introductions were made and a quorum was declared.

Business Meeting:

Dr. Mike Proctor provided a report from the Cost Allocation Working Group (CAWG) meeting on May 23, 2007 (CAWG Report – Attachment 1). Presentations and discussions included were:

Long Term Backbone Transmission Planning

Bob O'Neil (Golden Spread Electric) addressed long term backbone transmission planning with key points presented as:

- Backbone planning should have a minimum 20 year horizon

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- Backbone routing should be “friendly” to new generation resources
- Rights of way should be acquired as soon as possible – transmission must lead generation

Revenue Credits from Base Plan Funding

John Mills (SPP) led a discussion on revenue credits from Base Plan Funding. Mr. Mills reaffirmed with CAWG that use of directly assigned facilities by future transmission requests would be included in the calculation of costs for the requests and eligible for base plan funding.

Economic Portfolio Design

Charles Cates (SPP) provided information on the economic portfolio design addressing:

- Economic projects from STEP 2006
- Expanded benefits from the transmission list
- Economic portfolio relationship to the EHV project

Planning Guidelines

Mike Proctor (MOPSC) presented planning guidelines regarding comparing benefits to costs, timing of projects in the portfolio and capital budgeting concepts. Two action items are to be considered further by the CAWG:

- Calculation of portfolio benefits
- Pursue the pros and cons of taking Capital Budgeting approach to portfolio design

Enhanced and Integrated Resource Planning

Mike Proctor reviewed a discussion on Enhanced and Integrated Resource Planning (ERP & IRP). The CAWG needs to discuss alternatives on resource planning with the SPP RSC to determine next steps.

Cost Allocation Alternatives

Mike Proctor provided alternatives for cost allocation proposals.

Following the review of the May 23 CAWG meeting, Mr. Proctor suggested presentations be made at the July 23 Regional State Committee meeting. The following items will be addressed:

- Bob O’Neil to present long term backbone transmission planning
- Hold a discussion on Integrated Resource Planning
- High level presentation on cost allocation proposals

Mr. Proctor will provide the RSC a summary of the June 27, 2007 CAWG meeting.

Scheduling of Next Regular Meeting, Special Meetings or Events:

The next regularly scheduled RSC meeting is in Kansas City on July 23, 2007.

With no further business, the meeting was adjourned.

Respectfully Submitted,

Les Dillahunty

Southwest Power Pool Regional State Committee

June 28, 2007

9:30 a.m. - 10:30 a.m. CDT

TELECONFERENCE MEETING

AGENDA

- 1. CALL TO ORDER**
- 2. DECLARATION OF A QUORUM**
- 3. BUSINESS MEETING**
 - a. CAWG update regarding economic transmission upgrade cost allocation approaches**
 - b. Other**
- 4. ADJOURN**

Notice of Meeting of the Southwest Power Pool Regional State Committee

The Southwest Power Pool (SPP) Regional State Committee (RSC) will hold a public meeting at 10:00 a.m. CDT by teleconference on April 5, 2007. The business meeting will involve discussion and possible action as set forth in the attached Agenda. Members who are not able to attend in person should submit a proxy in accordance with the Bylaws.

Persons planning to attend the meeting should register online at: [Online Registration](#). You will receive dial-in information via email upon registration.

CAWG 5/23/07 Meeting Report

1. Presentation by Bob O'Neil on Long Term Backbone Transmission Planning
 - a. Key Points:
 - Backbone planning should have a minimum 20 year horizon
 - Backbone routing should be "friendly" to new generation resources
 - Rights of way should be acquired as soon as possible – transmission must lead generation
 - b. Requires an extended planning process: Bring into the planning process various "futurists" (those with a long term view) regarding areas of possible changes to current trends (e.g., areas such as economic development, environment, conservation, and demography).
 - c. Requires a forward looking regulatory approval process
 - Phase 1: pre-approval of routing and acquisition of right of way
 - Phase 2: approval of construction and cost recovery
 - d. Beneficial effects for generation of long term backbone transmission planning
 - Prior regulatory approval and acquisition of rights of way assures that transmission lines can be built when the timing is appropriate
 - Developers can proceed to acquire/obtain options on plant sites, water rights, etc., near acquired transmission rights of way with comfort that transmission can be constructed in a timely manner and that it can accept planned generation
 - Robust transmission offers access to broader markets, encouraging plant investment
 - Significant transmission needed for wind energy
 - e. Should think about expanded approach to cost recovery
 - Long lead time costs (e.g., early planning costs, regulatory approval costs, and cost of acquisition of backbone transmission right of way) should be recovered currently through a surcharge applied on an area wide basis
 - Actual cost to build, own and operate line segments should be recovered through a formula rate
 - Right to build own and operate should be obtained through a bidding process that is open to all qualifying transmission owner/operators
 - f. Conclusions
 - Backbone Transmission planning should precede, not follow, generation planning
 - Backbone Transmission routing should seek to accommodate new generation
 - Regulatory approval and transmission rights of way should be acquired early in the process
2. Discussion led by John Mills on Revenue Credits from Base Plan Funding:
 - Reaffirmed with CAWG that use of directly assigned facilities by future transmission requests would be included in the calculation of costs for the requests and eligible for base plan funding. Those with directly assigned costs from those facilities would receive revenue credits from SPP from revenues collected from rates associated with base plan funding.
 - In addition, those with directly assigned costs from those facilities that have paid for facilities would be eligible for a refund from transmission owners, in which case the transmission owners would receive payments from SPP from revenues collected from rates associated with base plan funding.

3. Presentation by Charles Cates on Economic Portfolio Design
 - a. Economic Projects from STEP '06
 - Presented Benefit to Cost ratios of these projects using an estimate of benefits based on 2 times the summer benefits estimated from screening analysis of various projects.
 - The benefits measured used in this analysis are not the adjusted production cost benefits proposed by the CAWG. Mike Proctor and Charles Cates are working on how to best estimate adjusted production cost benefits using the PROMOD model.
 - Issue raised about whether or not benefits from first tier systems to SPP are included in the measure of benefits. This is an issue of whether or not projects that provide benefits to first tier systems should require the allocation of costs to those systems.
 - Indications are that those projects with $B/C > 1$ tended to be in MO, MO/KS and OK. Implies that it may be difficult to develop a balanced portfolio for the entire SPP region if $B/C > 1$ is a project requirement when benefits are measured only by production cost savings.
 - Expanded analysis to include projects in TX and AR with $B/C < 1$, with the concept of balancing the portfolio.
 - b. Expanded Benefits from Transmission List
 - Reliability Benefits, Insurance and Risk Mitigation, Operational Benefits, Capacity Benefits, Impacts on Fuel Prices, Increased Market Competitiveness and Liquidity, More.....
 - Discussion: For approval by states it will be important to quantify additional benefits
 - **Action Items:**
 - a) **Circulation of California ISO approach to inclusion of additional benefits which are difficult to quantify.**
 - b) **Les will report at next meeting on ERCOT approach to additional benefits.**
 - c. Economic Portfolio relationship to EHV Project
 - SPP will work with InfraSource to establish a working relationship between the Economic Portfolio work and the EHV Overlay study
 - Synergies between the Economic Portfolio and the EHV Overlay Study need to be captured in an effective manner
4. Presentation by Mike Proctor on Planning Guidelines
 - a. Time Measures of Benefits and Costs: There was general agreement on the following approach to comparing benefits to costs
 - 1) **Benefits** measured over a **10-year period** – the SPP can calculate the levelized stream of annual benefits that has the same net present value as the estimated, year-to-year 10-year stream of benefits.
 - 2) **Levelized fixed charge** for engineering and construction costs (annual revenue requirements associated with the project) will be used to compare to the levelized benefits as calculated above. Levelized fixed charge includes the return of and on investment plus annual O&M costs, property taxes and income taxes.
 - This is equivalent to comparing the **net present value of benefits to levelized, annual revenue requirements over a 10-year period.**
 - Calculations at 20% fixed charge rate indicate that $B/C > 1$ using the above metrics results in a 7-year payback of the engineering and construction costs of the project.

- b. Timing of Projects in the Portfolio
 - There was general agreement that the timing of projects within the portfolio are important to the extent that projects with earlier implementation dates can impact the benefits measured for projects that have later implementation dates. In presenting the benefit analysis of benefits, SPP should take into account these interactions among projects.
 - Whether or not portfolio benefits should be calculated as the sum of project benefits within the same year was discussed, but there was no general agreement on how to account for timing differences in the calculation of portfolio benefits.
 - **Action Item: CAWG needs to further discuss calculation of portfolio benefits.**
 - c. Capital Budgeting Concepts
 - Capital budgets may be developed for the portfolio based on the impact of the addition to revenue requirements on retail rates. There was no detailed discussion of what limit should be set as a guide for setting a capital budget.
 - If a capital budget were established for the economic portfolio, one way to help to ensure a balance portfolio would be to allocate the SPP-wide capital budget to several sub-regions within the SPP (e.g., west, north and east).
 - SPP would work with these sub-regions to determine the projects within each sub-region that would meet the capital budget and provide a balance of benefits within the sub-region.
 - Cross sub-region benefits would need to be taken into account when combined into a region-wide portfolio.
 - **Action Item: CAWG needs to further pursue the pros and cons of taking a Capital Budgeting approach to portfolio design.**
5. Discussion led by Mike Proctor on Enhanced and Integrated Resource Planning
- ERP – Enhanced Resource Planning by SPP defined as SPP only including generation with interconnection agreements, but SPP applying a sensitivity analysis that provides additional generation as a substitute for the transmission upgrade projects being considered.
 - IRP – Integrated Resource Planning by SPP defined as SPP taking resource plans of individual members and determining a best resource plan for the region. With feedback from individual members, new generation in the resource plan for the region would be used as the basis for evaluating benefits from transmission projects.
 - Discussion:
 - Several utilities were concerned with the IRP approach, stating that SPP should not be involved in setting resource planning for the entire region.
 - Commissioner Gaw pointed out that the purpose of SPP, the IRP approach is not to set resource planning for the region, but rather to provide states with more region-wide information that would help individual members and states to be better informed in their IRP processes.
 - Mike Proctor pointed out that the SPP IRP approach is meant as a process to best represent the benefits from economic transmission upgrades, not to make a determination as to the final determination of what generation resources are to be added by individual members.

- Combining Aspects of ERP and IRP specified as SPP discussing with individual entities what demand-side resources should be included in load forecasts and where to locate needed generation alternatives needed to meet planning reserve margins.
 - **Action Item: CAWG needs to discuss alternatives on resource planning with the SPP RSC to determine next steps.**
6. Presentation by Mike Proctor on Cost Allocation Alternatives – examples given to “prime the pump” for transmission owners and transmission customers to develop alternative cost allocation proposals.
- Cost Allocation Boundaries: Postage Stamp (PS) versus Beneficiaries’ Pay (BP)
 - CAWG is looking for Intermediate Proposals such as:
 - Highway/Byway: Voltage based combinations of PS and BP
 - Phase-in of economic cost allocation into reliability cost allocation.
 - Participants were encouraged to work together to develop and present cost allocation alternatives at the June CAWG meeting.
 - CAWG may need to meet in July prior to SPP RSC meeting – July 23rd.