



1000 Center St.

Little Rock, AR 72201

**Southwest Power Pool
REGIONAL STATE COMMITTEE
August 24, 2007
Teleconference**

• M I N U T E S •

Administrative Items:

Members in attendance or represented by proxy were:

- Mike Moffet, Kansas Corporation Commission
- Steve Gaw, Missouri Public Service Commission
- Sam Loudenslager, for Paul Suskie, Arkansas Public Service Commission

Others in attendance:

- Tom DeBaun, Kansas Corporation Commission
- Jason Gray, Kansas Corporation Commission
- Larry Holloway, Kansas Corporation Commission
- Walter Wolf, Stone, Pigman, Walther, Wittman, LLC
- Adrienne Brandt, Public Utility Commission of Texas
- Mike Proctor, Missouri Public Service Commission
- Greg Meyer, Missouri Public Service Commission
- Joyce Davidson, Oklahoma Corporation Commission
- Harry Skilton, SPP Director
- Bary Warren, Empire
- Rob Janssen, Redbud
- Walt Shumate, EEI
- Tim Woolley, Xcel Energy
- David Kays, Oklahoma Gas and Electric
- Jake Langthorn, Oklahoma Gas and Electric
- Carl Monroe, Southwest Power Pool
- Les Dillahunty, Southwest Power Pool
- Jap Caspary, Southwest Power Pool
- Keith Tynes, Southwest Power Pool
- Cheryl Robertson, Southwest Power Pool

Steve Gaw called the meeting to order at 9:10 a.m. Carl Monroe called roll and a quorum was declared.

Business Meeting:

Dr. Mike Proctor provided a report from the Cost Allocation Working Group (CAWG) meeting on July 25, 2007 (CAWG Report – Attachment 1). Topics included were:

- STEP Screen to Portfolio Transition
Charles Cates (SPP Staff) led a discussion regarding the 2006 STEP Screening process, stakeholder and SPP staff recommendations and the WFLR Process from the EHV Overlay Study. SPP has agree to include in the screening process TLRs on flowgates and off-peak benefits.
- Integration vs. Off Ramp Facilities

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Raj Rana (AEP) led a discussion regarding off ramp facilities versus integration facilities. The group decided that further discussion was needed regarding off ramp facilities where situations in which lower voltage upgrades are needed to bring benefit/cost ratio up to have the EHV project implemented.

- Aggregate Study Improvement Task Force Update
Jason Atwood provided an update on the Aggregate Study Improvement Task Force (ASITF). The Market and Operations Policy Committee (MOPC) directed that the ASITF present a report of potential Aggregate Study revisions prior to the October 16 MOPC meeting. The task force is made up of 7 members and 2 observers: 3 Transmission Owners; 3 Transmission Dependent Utilities; 1 Independent Power Producer; 1 FERC Staff; and 1 State Commission Staff. The group has agreed to remove the System Impact Study from the Aggregate Study process and has added the 15 day tariff required for execution of the study agreement in the 4 month open window or the transmission customer will be placed in the next Aggregate Study.
- Early Buy-In for Economic Upgrades
Dr. Mike Proctor led a discussion regarding buy-in for Economic Upgrades considering: the pre-approval process; the specification of the lower bound on the benefit to cost ratio under which a project is allowed to qualify for the portfolio; project cancellation; ongoing evaluation of approved projects; and risks associated with project cancellation. Dr. Proctor listed two action items for the August CAWG meeting:
 - Project completion costs compared to benefits, criteria for cancellation should be equivalent to benefit/cost criteria for inclusion of a project
 - Proposed modifications to postage stamp rate design for an unbalanced portfolio
- Topics for Next CAWG Meeting
Dr. Mike Proctor asked the RSC if modeling assumptions used for evaluation of an economic portfolio should match the modeling assumptions that go into the EHV project and asked for direction moving forward. Following discussion, the group decided that the CAWG should develop a list of key assumptions for the economic model, which hopefully will be consistent with the EHV project.

With no further business, the meeting was adjourned.

Respectfully Submitted,

Les Dillahunty

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9:00 a.m. – 11:00 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**

Summary of July 25 CAWG Meeting

- A. STEP Screen to Portfolio Transition: Discussion led by Charles Cates
- Projects are taken from the 2006 STEP Screen, Stakeholder and SPP Staff recommendations and the WFLR Process from the EHV Overlay Study (2006 STEP – 16 projects; Stakeholder – 21 projects; WFLR – 4 projects)
 - **Question was raised about screening projects to correct TLRs on flowgates. SPP will get back to CAWG on this question.**
 - **Question was raised about screening projects for off-peak benefits. SPP agreed to look at this. Updates at next CAWG meeting.**
 - 2007 STEP Screen developed using Global Energy Decision's (GED) MarketSym software package
 - Economic Screen considers benefits of projects during 2012 Summer
 - Benefits are calculated for one typical week month and extrapolated to yearly results by Year = 2 x Summer Benefit
 - 10 Year Benefits calculated at an 8% discount rate
 - Results presented at the August TWG meeting and 2007 Transmission Summit.
- B. Integration vs. Off Ramp Facilities: Discussion led by Raj Rana
- Off ramp facilities are those needed to “tap” into the new EHV kV line from new lower voltage transmission facilities that support a zonal need. Examples:
 - Taps to add new lower voltage facilities
 - Step-down transformers to new lower voltage facilities
 - **Further discussion is needed. What about situations in which lower voltage upgrades are needed to bring B/C ratio up to have the EHV project implemented? Review the MISO filing at next CAWG meeting.**
 - Integration Facilities are those upgrades to existing lower voltage facilities needed because of the new EHV kV line.
 - Terminal facilities; circuit breakers; ring bus facilities; switches; wave traps; step-down transformers to EHV (765 to 345); and any lower voltage overloads that need to be corrected.
- C. Aggregate Study Improvement TF Update: Discussion led by Jason Atwood
- MOPC directs the ASITF to present a report (and if possible, in working with the RTWG, provide tariff language) of potential Aggregate Study revisions prior to the October 16 MOPC meeting.
 - 7 Members and 2 Observers: 3 Transmission Owners; 3 Transmission Dependent Utilities; 1 Independent Power Producer; 1 FERC Staff; and 1 State Commission Staff
 - Team was formed on Monday, June 18th and has already held 4 meetings.
 - ASITF agreed to remove System Impact Study from the Aggregate study process. This will require tariff changes.
 - ASITF agreed to include the 15 day tariff required execution of the study agreement in the 4 month open window or the Transmission Customer will be placed in the subsequent Aggregate study.
 - All required documents including OASIS reservation entry, NITS application update (if applicable), study deposit (if applicable) and study agreement will be in place by the end of the 4 month window.

- Failure of the Transmission Customer to provide all of the required documents would require the customer's reservation to be placed in the subsequent Aggregate study.

D. Early Buy-In for Economic Upgrades: Discussion led by Mike Proctor

- Buy-In for Economic Upgrades could refer to the time at which the SPP RSC agrees to a cost allocation package, or the time at which the state commission approves the construction of the facilities. In the second instances, some states require pre-approval (e.g., a Certificate of Need and Necessity), but other states do not require pre-approval on transmission facilities built in the utilities' service territory.
 1. Missouri – certificate needed only if built outside of service territory
 2. Oklahoma – no citing pre-approval by OCC (done by a different group)
 3. Arkansas – certificate is required to put in a major transmission facility
 4. Kansas – certificate is required from the KCC (230 kV or larger / more than 5 miles)
 5. Texas – certificate is required to be a utility, then is amended for each project.
 6. Louisiana – does not currently require a certificate, but may be in rules soon.
- A key component to early buy-in is the specification of the lower bound on the benefit to cost ratio under which a project is allowed to qualify for the portfolio; e.g., $\alpha = 1$ or 0.9.
- An additional factor for early buy-in is project cancellation after start up. Any project in process has two categories of costs:
 1. Sunk Costs: Expenditures already incurred to implement the project.
 2. Projected Completion Costs: Expenditures not yet incurred but are expected at a future date in order to complete the implementation of the project.
- Ongoing evaluation of approved projects should only treat the second category of costs as relevant. The criteria for stopping a project that is partially completed is that the net present value of the revenue requirements associated with the project completion costs exceed α * (net present value of the benefits expected from the project);
 - The quid pro quo is that sunk costs incurred for approved projects that were subsequently cancelled should be recoverable.
- The risks associated with project cancellation are:
 1. With the cancellation of a project, the portfolio is unlikely to remain reasonably balanced – i.e., it is likely that some zone(s) may end up with $B/C < 1$ because of a cancelled project.
 - 🔗 Unbalanced portfolio risk can be addressed in at least two ways:
 - Find substitute projects to replace the cancelled project and restore balance to the portfolio.
 - Provide an adjustment to the postage stamp rate design for unbalanced portfolios.
 2. It could be argued that the sunk costs of an abandoned project are not used and useful and therefore not recoverable from rate payers.
 - 🔗 For states having pre-approval, used and useful should not be a problem. It is likely that a state giving pre-approval would condition that pre-approval on the authority to review any cancellation of a project.
 - 🔗 For states not having pre-approval, there is a risk that recovery of the costs from cancelled projects might not be approved. However, these costs would go through SPP as a FERC approved rate, and would not be included as an addition to rate base in the state's cost of service case

- Where additions to rate base occur, then revenues received from SPP are used as offsets to revenue requirements.
- In this case, there is no addition to rate base, but there would be an SPP related charge for the cost of a cancelled project.
- Two key components – Action Items for August CAWG meeting.
 - 1. Project Completion Costs compared to benefits – criteria for cancellation should be equivalent to B/C criteria for inclusion of a project.**
 - Where should we recommend setting α ?
 - 2. Proposed modifications to postage stamp rate design for an unbalanced portfolio.**
 - Backup formula rate: If the $B/C < 1$ for a zone, what form of rate adjustment should be made to restore that zone to a $B/C = 1$ and ensure that all other zones have $B/C \geq 1$?

E. Topics at Next CAWG Meeting.

- CAWG needs to discuss assumptions that go into the model used to calculate the benefits of the portfolio of economic projects. Screening models used the 2012 STEP as the basis for doing the evaluation.
- **Question for RSC: Should the modeling assumptions used for evaluation of economic portfolio match the modeling assumptions that go into the EHV project?**
 - 1. The EHV project jumps out twenty years, but in putting a proposed implementation plan together for this project, the SPP will have to choose a path that gets from 2006 to 2026.**
 - 2. Does this approach help to integrate the two (Economic portfolio with EHV)?**