Regional Planning Recently Asked Questions

One of the many benefits of regional planning is the additional transparency and visibility it brings to the process of building new transmission infrastructure. This document provides additional information about the roles of SPP, Transmission Owners, and regulators in that process, as well as about Priority Projects specifically.

1. **What is SPP’s role in transmission planning?**
   
   One of SPP’s responsibilities as a FERC-approved Regional Transmission Organization is to create regional transmission expansion plans. SPP doesn’t build or own transmission; we work with our members to create planning models and studies to determine new transmission that will be needed to maintain reliability and provide economic benefit into the future. SPP can assess needs from a larger, regional perspective rather than the more limited view of a single utility. In the regional planning process, each new transmission project is part of an integrated whole. While each project has unique characteristics, it is the combination of projects that creates regional benefits.

   According to SPP’s [Open Access Transmission Tariff](#), the Transmission Owners whose substations connect to the beginning or end of the planned lines have the right of first obligation to build the projects. SPP does not establish rates for recovery of transmission project costs, nor have we historically played a significant role in developing project cost estimates; instead, we have compiled and presented cost estimates developed by Transmission Owners. SPP does track project construction, including estimates and actual costs.

   SPP’s studies indicate that transmission is needed between Point A and Point B to meet planning objectives such as maintaining reliable operations, addressing congestion, and providing economic benefits. The exact route to achieve this needed transmission is determined by the utility and state regulators (when required).

   The responsibilities of all stakeholders in the process must be understood: SPP to provide a transparent regional transmission planning process, Transmission Owners to construct and own transmission facilities, and FERC/state regulatory authorities to regulate within their statutory authority.

2. **What is a Transmission Owners’ role in transmission planning?**
   
   In the past, utilities built new transmission according to their own needs, and cost estimates remained internal to each utility, subject only to internal review and any obligations to regulatory authorities. Prior to the advent of open access transmission service and FERC-created regional rates for RTOs, state regulators generally set rates for “bundled” retail service - including generation, transmission, and distribution service - based on costs the utility incurred for facility construction and operation. Today, as utilities participate in our regional planning process and are impacted by the long-term benefits and costs of approved projects, they are becoming increasingly liable for rates imposed by SPP’s FERC-approved tariff for transmission projects constructed by members in other states.

   While SPP’s Transmission Owners have ceded their transmission planning responsibilities to us, they have not ceded their rights and responsibilities related to transmission construction. Cost estimation, siting, project management, and retail rates are addressed by Transmission Owners through their internal processes and interactions with appropriate regulatory authorities.

   For instance, recently Transmission Owners provided cost estimates for their respective projects in the Priority Projects group (page 45 of the [Priority Projects Phase II report](#)). Similarly, in 2009 Transmission Owners provided cost estimates for their respective projects in the Balanced Portfolio (page 45 of the [Balanced Portfolio Report](#)). In both instances, SPP collected and published these cost estimates.

3. **What is a state regulator’s role in transmission planning?**
   
   State regulators exercise their rights and responsibilities via some combination of state siting or certificate authority and/or federal and state ratemaking authority. State regulatory authorities typically possess the authority to:

   - Disallow imprudent or unreasonable costs in a traditional ratemaking proceeding
   - Impose conditions on siting approval or a certificate of public convenience and require the utility to provide periodic reports on cost estimates of a particular project
- Intervene in another state’s regulatory proceeding as an interested party
- Intervene before FERC in a rate case
- Review and approve or reject a utility’s Integrated Resource Plan

4. What are Priority Projects?
In April 2010, the SPP Board of Directors approved for construction a group of “priority” high voltage electric transmission projects estimated to bring benefits of at least $3.7 billion to the SPP region over 40 years. The projects will improve the regional electric grid by reducing congestion on the power lines, better integrating SPP’s east and west regions, improving our members’ ability to deliver power to customers, and facilitating the addition of new renewable and non-renewable generation to the electric grid.

5. Why weren’t projects included for all SPP states?
The 345 kV projects are regional in nature – they are “highways”, not “back roads”. Just as everyone helps pay for the interstate highway system because everyone travels those roads to move from one state or region to another, large transmission lines provide a “superhighway” to move power across the region. Priority Projects are one set of projects; SPP’s Integrated Transmission Planning process will continue to identify new transmission required to meet the region’s future needs. Entities across the region will benefit from the added transmission. If we continue regional cost-sharing such as this year after year, over the long-term, it levelizes expenditures across the region.

6. How will costs be allocated and managed on a regional basis?
In June 2010 FERC approved SPP’s Highway/Byway cost allocation methodology for sharing costs of new electric transmission across the region, including Priority Projects. While the cost estimation process remains the Transmission Owners’ responsibility, SPP is creating procedures related to project screening and cost/benefit analyses before Transmission Owners develop the final cost estimates. At its October meeting, the Regional State Committee (RSC) of state regulators approved the following recommendations:

1. SPP review the best manner to address significant cost increases and/or overruns of transmission projects that are regionally funded.
2. SPP review the SPP novation process and report to the RSC by April 2011.
3. SPP consider establishing design and construction standards for transmission projects at 200 kV and above that are regionally funded.
4. SPP evaluate how cost estimates are established for transmission projects before cost benefit analysis is performed.
5. The Cost Allocation Working Group study various methods on how costs that exceed some standard can be addressed with different cost allocation mechanisms and recommend strategies to the RSC.

The Board of Directors accepted the recommendations and assigned 1, 2, 3 and 4 to the Strategic Planning Committee. The Board will receive status reports on these activities in January 2011. Recommendation 5 will be addressed by a working group of the Regional State Committee, which has the responsibility for project cost allocation.

7. Why did project cost estimates for Priority Projects recently change?
The acceptance letters and our follow-up with the designated Transmission Owners identified cost variances from the original estimates. The following table summarizes the major cost changes provided to SPP by the designated Transmission Owners. Two Priority Projects had minor cost changes, including a $120,000 increase and a $3 million reduction from original estimates.
The total cost variances amount to $271,000,000, a 24% increase from the Transmission Owners’ original estimates. The increases are attributable to several factors including:

- Increases in transmission line mileage
- Project owners’ limited experience with double-circuit construction
- Increases in costs per mile
- Additional reactive compensation (support) necessary upon further detailed review of the projects (equipment such as reactors and capacitors)
- Increases in forecasted contingency costs (variables in component costs)
- Slight rerouting due to siting requirements

At the October 2010 Board meeting, staff recommended acceptance of these cost variances. The Members Committee voted overwhelmingly in favor of this change and it was approved by the Board of Directors.

8. How do these cost estimate increases impact Priority Projects’ cost/benefit calculation?

The benefits for these projects, even with the updated costs, continue to be positive. The original benefit-to-cost (B/C) ratio for Priority Projects was 1.78 with engineering and construction costs of $1.14 billion. (See the SPP Priority Projects Phase II Final Report for more information.) The cost variances and updated estimates increased the engineering and construction costs to $1.42 billion and reduced the B/C ratio to 1.58. The net present value cost increased from $2.1 billion to $2.5 billion. This B/C ratio is calculated using a present value of the benefits and costs for the Priority Projects. The following table depicts how the ratio was calculated:

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Benefit Type</th>
<th>Benefits</th>
<th>B/C Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brattle (qualitative benefits related to construction and maintenance of new wind generation and Priority Projects, such as jobs, local economy, etc.)</td>
<td>42%</td>
<td>$1,676,358,453</td>
<td>0.66</td>
</tr>
<tr>
<td>Adjusted Production Cost savings</td>
<td>32%</td>
<td>$1,301,191,318</td>
<td>0.51</td>
</tr>
<tr>
<td>KEMA (natural gas price reduction)</td>
<td>18%</td>
<td>$718,066,058</td>
<td>0.28</td>
</tr>
<tr>
<td>Wind Revenue</td>
<td>6%</td>
<td>$230,924,482</td>
<td>0.09</td>
</tr>
<tr>
<td>Reduction in transmission losses</td>
<td>2%</td>
<td>$70,570,431</td>
<td>0.03</td>
</tr>
<tr>
<td>Advancement or deferral of previously-identified projects</td>
<td>1%</td>
<td>$20,813,781</td>
<td>0.01</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$4,017,924,524</strong></td>
<td><strong>1.58</strong></td>
</tr>
</tbody>
</table>

While estimated rate impacts resulting from project costs were known at the time the projects were approved, SPP’s Rate Impact Task Force is currently assessing the impacts of all SPP-approved projects.
9. **Why did SPP change routing of part of the V Plan from Woodward-Comanche to Woodward-Medicine Lodge?**

   The routing change was requested primarily due to environmental concerns which arose during further evaluation of the proposed routing from Woodward to Comanche by the designated Transmission Owners. A number of parties expressed concern about protecting the Red Hills native prairie, which provides habitat for the lesser prairie chicken and other wildlife species.

   During the early stages of Priority Project analysis in August 2009, SPP analyzed both Comanche and Medicine Lodge as terminus points for construction. While electrically equivalent, the initial analysis supported the Woodward-Comanche route based on slightly lower impacts on the underlying system and a shorter distance, resulting in an expected lower cost for the project. We recognized the potential for greater environmental impacts on the Comanche route compared to Medicine Lodge but were optimistic that an acceptable route could be negotiated.

   Based on the results of SPP’s analyses, including assessment of the environmental impacts, we recommended accepting the proposed routing change from Woodward-Comanche to Woodward-Medicine Lodge. At the October 2010 Board meeting, after discussion, the Members Committee voted in favor of this change and it was passed by the Board of Directors.

10. **What is a Notification to Construct, and when did SPP issue those for Priority Projects?**

    Following [FERC's approval of SPP’s Highway/Byway cost allocation methodology](#) in June 2010, SPP’s Board of Directors approved the issuance of Notices to Construct (NTCs) for Priority Projects. The notices were issued on June 30 and allowed 90 days for Transmission Owners to respond, including its commitment to build, any proposed changes to the project, and any updates to cost estimates previously provided to SPP. By the end of September, in accordance with provisions in SPP’s Tariff, we received responses to the NTCs with commitments to construct from all Transmission Owners. Transmission Owners review and often update their project cost estimates as a part of their acceptance of an NTC.

    SPP’s Tariff allows Transmission Owners to propose a different project schedule and/or alternative specifications within its written commitment; however, SPP can accept or reject any alternative proposal.

11. **What does novation mean?**

    Under the SPP Tariff, Transmission Owners whose substations connect to the beginning or end of the lines have the right of first obligation to build the projects. We issue NTCs to these entities, and they can accept or decline to accept the NTC. Even if the Transmission Owner accepts the NTC they may choose to novate the project to an existing Transmission Owner or to an entity willing to become a Transmission Owner. If a project is novated, the original Transmission Owner transfers all legal and financial obligations of the project to the novate entity. If the Transmission Owner declines to accept the NTC, SPP has the responsibility to find a Transmission Owner that is willing to build the project as specified.

    Three Transmission Owners - Westar Energy, Mid-Kansas Electric Co., and Sunflower Electric Power Corporation – are proposing to novate projects listed in the Priority Project NTCs to Prairie Wind and ITC Great Plains, although no novations have been finalized.