Summary
Transmission Expansion Cost Allocation Proposal

for the
SPP RSC
September 8, 2004

Overview of Straw Proposal on Cost Allocation for Transmission Upgrades

• Base funded upgrades
  – Upgrades necessary to meet reliability criteria and projected load growth in region
• SPP approved economic upgrades
  – May be partly voluntarily funded and partly rolled into rates
• Other requested upgrades
  – Upgrades requested by and paid for by one or more parties
Areas of Agreement on Cost Allocation

1. Base Plan Upgrades
   - Regional/zonal cost allocation approach
   - X% through a single region-wide SPP rate
   - 100-X% recovered through the zonal rate of zone or zones which benefit from the upgrade

2. SPP approved economic upgrades
   - Y% directly from the party or parties that volunteer to pay for such upgrades
   - 100-Y% through a single region-wide SPP rate

3. Participant funded
   - Requested upgrades funded 100% directly from the requestor; i.e., no change from today.

RSC Guidance Required on Several Key Issues

1. Base Funding Issues
   a. What level of flexibility, if any, should transmission customers have in resource designations in the base plan?
   b. What percentage of upgrade costs (X%) to be allocated to region-wide rate?
   c. How should the remaining portion of costs be allocated among the zones?

2. Economic Upgrade Issues
   a. Percentage of cost of economic upgrades to be allocated to region-wide rate (Y%).
   b. What rights does a Participant receive for voluntarily funding non-based funded projects?
1.a. Base Funded Upgrades
Flexibility in Designating Network Resources

- All stakeholders agree Base Plan must be developed to meet reliability requirements and projected load growth
- Clear split over the scope of the Base Plan and treatment of designated network resource change requests. Options include:
  - Option 1 – Base plan should include transmission customer requests to change designated resources to meet their changing supply requirements
  - Option 2 – Base Plan should be developed for existing transmission service and projected load growth; changes to designated network resources should not be in Base Plan
  - Option 3 - Same as Option 1 except that transmission customer must demonstrate that DNR change meets certain guidelines (e.g. level of commitment to resource, long-term nature, etc.)
- CAWG requires direction from RSC on preferable option

1.b. Base Funded Upgrades
X% in Region-wide Rate

- What percent of BPF costs should be assigned as regional?
  - 10% or less via Transfer Reserve Margin Test
  - 25% via SPP 3% Transfer Test
  - 33% via SPP Megawatt-Mile Loop Flow Test
  - 50% via Sunflower Proposal
  - 100% via TDU Network System Proposal
  - % could vary by voltage level via SPP Megawatt-Mile Loop Flow Test
1.c. Base Funded Upgrades
Allocation of (1-X)% to Zones

- Choice between two proposed flow-based tests and current practice
  - AEP Test: those zones that benefit from economy transactions as measured by net imports.
  - SPP Test: those zones whose megawatt-mile use of the existing system decrease from the addition of a system upgrade.
  - Status Quo: Cost assigned to the zone in which the facilities are located.

2.a. SPP Approved Economic Upgrades
Y% Voluntarily Funded

- Projects would require a certain level of voluntary funding (Y%) before the remaining portion is funded by the region.
  - Should Y% be determined as a policy matter to represent strong support from market participants for the project – say 2/3rs or 3/4ths voluntarily funded;
  - Should Y% change with the strength of the economic benefits that are expected to result from the upgrade; or
  - Should Y% be low to facilitate completion of projects that provide energy benefits?
2.b. SPP Approved Economic Upgrades
Participant Rights

- Should a crediting policy analogous to Order 2003-A be adopted for participant funded projects; or
- Should participant funded projects be treated as directly assigned costs with no credits back to participant?