SPP New Member Communication and Integration Process

Mountain West Transmission Group

Background Information
October 2017

Contents

Introduction

The Mountain West Transmission Group ("MWTG") and the Southwest Power Pool ("SPP") have been in discussions about MWTG joining SPP since early 2017. While MWTG is accepting the vast majority of the SPP RTO design, there remain areas where MWTG requires different terms and conditions than existing SPP members. This document represents a high level overview of these changes that are necessary for the MWTG participants to become members of SPP, but is not intended to be binding on any participant.

1. Westside Tariff Design

a. **Zonal Construct** – The MWTG footprint will have the following license plate rate zones:
   1. WAPA LAP – WAPA Loveland Area Project ("LAP") including Cheyenne Light, Fuel, & Power Company
   2. WAPA Colorado River Storage Project ("CRSP")
   3. Public Service Company of Colorado ("PSCo") – Public Service Company of Colorado and a portion of the facilities and loads of Tri-State Generation and Transmission Association ("Tri-State")
   4. Tri-State – Tri-State Facilities and loads within the MWTG footprint that are not in the PSCo zone and including Missouri Basin Power Project Participants facilities
   5. Platte River Power Authority ("PRPA")
   6. Colorado Springs Utilities ("CSU")
   7. Black Hills Colorado Electric ("BHCE")
   8. Common Use System – Facilities and loads of Black Hills Power, Powder River Electric Corporation, and Basin Electric Power Cooperative other than the Missouri Basin Power Project facilities

b. **Cost Shift Mitigation** - SPP will administer a seven (7) year multi-lateral cost shift mitigation to address the cost shifts that result from de-pancaking transmission rates in the MWTG region. This agreement will utilize MWTG's share of RTOR revenues to help facilitate the cost shift mitigation within the MWTG region. MWTG has reached resolution of the cost shift terms and is negotiating a definitive agreement on its terms. This agreement is expected to become a part of the SPP Tariff and be administered by SPP. Other bilateral agreements may also be filed or made part of the SPP Tariff.

c. **Regional Through and Out Rate ("RTOR")** - SPP will be the Transmission Service Provider through its administration of the SPP Tariff in the MWTG region. Any point-to-point transmission service that sinks outside the MWTG region will be sold at the RTOR which equals the sum of the MWTG Annual Transmission Revenue Requirements ("ATRR") divided by the sum of the MWTG 12-coincident-peak demand (i.e. a postage stamp rate). RTOR revenues will first be used to fund the multi-way cost shift mitigation. Revenues in excess of those required for cost shift mitigation will be shared with the MWTG transmission owners based on 60% MW-Mile and 40% ATRR ratios.

d. **RTOR Revenue Distribution** - Revenues for point-to-point transmission service that crosses the DC-ties, whether East to West or West to East, will be distributed to MWTG and SPP East on a load ratio share basis.

e. **DC-Tie ATRR** - SPP will administer a new rate schedule ("Schedule 11 DC") that allocates the ATRR of the Lamar, Sidney, Stegall and Rapid City DC-ties across the combined SPP footprint on a load ratio share basis.

f. **Zonal Entry Criteria** – In order to protect against unanticipated cost increases to the MWTG rate zones, MWTG proposes a Westside zonal entry process similar to SPP's existing process, that also includes specifically defined entry criteria and a cost-shift mitigation mechanism. Any new transmission owner that seeks entry into a MWTG rate zone must provide notice to SPP; and provide analytical information on cost shifts to SPP so SPP can perform the analysis on zonal placement and cost shift mitigation requirements. After SPP performs the analysis it will provide notice to potentially affected parties of the placement and any mitigation requirements. The affected parties will then be allowed to negotiate prior to a FERC filing. After the MWTG integration, these criteria would apply to subsequent TOs integrating into SPP in the Western Interconnection.

g. **Grandfathered Agreements** - MWTG will add grandfathered agreements ("GFAs") to the SPP Tariff Attachment W. The grandfathered agreements will receive the same treatment in the SPP Marketplace as the existing grandfathered agreements in SPP Attachment W.

h. **Creditable Upgrades** - The Z2 crediting methodology in the SPP Tariff will not apply to the Westside. Rather, crediting for sponsored upgrades, direct assigned service upgrades and generator interconnection-related upgrades will be accomplished per the Auction Revenue Crediting ("ARC") process.

2. Operational Provisions

a. **Market Design -** MWTG will adopt the existing SPP Integrated Marketplace rules with only necessary modifications to incorporate a Westside Balancing Authority into the existing market and to optimize the four MWTG DC-ties. The scheduling and transmission-rate hurdles associated with transacting across the DC-ties will be removed and SPP will manage the flow on the DC-ties using the market solution.

b. **Operating Reserves -** SPP will explore methods to share Operating Reserve (spinning and supplemental) products between the East and West Balancing Authorities using the DC-ties. Implementing a methodology is not required prior to MWTG integration into SPP.

c. **Tools** - SPP will provide Real-Time Contingency Analysis ("RTCA") services to be included in the administration fee for any MWTG participant who requests it in order to satisfy NERC Transmission Operator requirements.

d. **Reliability Coordination -** The MWTG participants intend to have RC services provided by SPP, once SPP is certified to be an RC in the Western interconnection. SPP will also need to certify with NERC as a Balancing Authority and Transmission Service Provider for the MWTG footprint.

e. **Resource Adequacy Analysis -** SPP will perform a loss of load expectation ("LOLE") study of the MWTG footprint to evaluate the possibility of adopting a single minimum planning reserve margin for the MWTG region, with due consideration of the DC-tie capacities.
f. **Capacity Accreditation** - MWTG reserves the right to determine the accreditation rules for intermittent generation in the MWTG footprint and will receive an exemption from the SPP Criteria until Westside rules are established.
g. **Transmission Feasibility** - SPP will perform a transmission study comparable to the studies SPP performed for the integration of Nebraska and the Integrated System entities to assess transmission system adequacy for the MWTG footprint at the time of integration. Any transmission upgrades required from this study will be recovered from the responsible entity's customers and will not be eligible for regional cost allocation.

3. Planning Process

SPP will establish two planning regions for Order 1000 purposes, such that SPP East will perform interregional planning with other planning regions in the Eastern Interconnection and SPP West will perform interregional planning with other planning regions in the Western Interconnection. However, SPP will perform its regional planning process between and within SPP East and SPP West using common futures and all currently defined and used benefit metrics.

For SPP West, MWTG proposes that the SPP regional planning process, specifically the Integrated Transmission Plan ("ITP"), accommodate locally planned upgrades resulting from local planning processes that are openly coordinated among MWTG planners and stakeholders. MWTG locally planned upgrades will generally be those below 200 kV needed to meet reliability, load service, and public policy needs. Those upgrades will be treated as zonal reliability upgrades for cost allocation purposes. MWTG also proposes to increase the voltage threshold for future transmission facilities (in Attachment AI to the SPP Tariff) from 60kV to 100kV.

Upgrades originating from the MWTG local planning process will be included in models used by SPP as it performs its ITP process. As SPP performs its regional planning process, it will evaluate whether a regional solution (i.e., upgrades greater than 200 kV) can solve both local and regional needs in a more cost effective way than upgrades produced by the local planning process. If SPP identifies an unresolved local need as it performs its regional planning process, it will work with the appropriate local transmission planner(s) to assess the appropriate local solution to be incorporated in the recommended ITP portfolio. SPP will also identify sub-200kV upgrades that are required to be constructed in concert with a regional upgrade and allocate such sub-200kV upgrades like a 200-300kV project up to 20%

of the regional upgrade's cost. A portfolio of proposed regional solutions in SPP West must be reviewed and approved by the MWTG stakeholders before being submitted to the SPP Board for approval.

As mentioned above, the MWTG Transmission Owners will have a key role in identifying the preferred reliability upgrades below 200 kV to serve the long-term local and reliability needs of the MWTG customers. However, the final recommended set of upgrades in the MWTG footprint resulting from SPP planning studies will be based on SPP's consideration of input from all stakeholders through the review process.

4. MWTG Regional Transmission Cost Allocation

MWTG determined that the existing SPP Highway-Byway rate design for transmission system facilities/upgrades did not fit well into the MWTG footprint because of the voltage level only criteria. The MWTG developed a cost allocation methodology that more closely aligns with its existing transmission planning process, by using a beneficiary approach to cost allocation, while also adopting a voltage level approach similar to what is used in the existing SPP footprint. The MWTG proposal will allocate costs for new transmission facilities/upgrades based in part on benefits and in part on a project's voltage level. The benefits assessment employed for this assessment will be the benefits assessment already conducted as part of the ITP process.

MWTG Proposal

a. **Local Cost Allocation:** Projects with an operating voltage below 200 kV will be assigned to the zone(s) to which the project is physically connected.
b. **Regional Cost Allocation:** In order for a project to be eligible for regional cost allocation in the MWTG footprint, it must meet the following criteria:
    i. Must be a network transmission facility with an operating voltage of 200kV or above;
    ii. Must have a project cost of at least $15 million; and,
    iii. Be part of a portfolio that has a benefit to cost ratio greater than or equal to 1.25.
c. For projects eligible for regional cost allocation, the costs will be allocated according to the following methodology:
    i. Projects with an operating voltage between 200 kV and 300 kV will be allocated as follows:
        - 30% regionally based on load ratio share
        - 70% to benefiting zones based on benefits identified in the portfolio benefits assessment
    ii. Projects with an operating voltage 300 kV and above will be allocated as follows:
        - 50% regionally based on load ratio share

- 50% to benefiting zones based on benefits identified in the portfolio benefits assessment

d. **Federal Service Exemption:** The Federal Service Exemption, which is described in more detail in Section 7, will apply to all project costs eligible for regional cost allocation (i.e. all projects over 200 kV unless screened out of cost allocation eligibility by the planning process, less than $15 million in project cost, or otherwise not eligible for cost allocation).

e. **Cost Allocation Review Process**: MWTG entities will periodically review the reasonableness of the cost allocation methodologies described above beginning in the fifth year following the first SPP West regionally allocated project being placed into service. Additionally, MWTG entities may review the reasonableness of the cost allocation at any time and SPP staff will provide analytical and other support. Any changes to the SPP West cost allocation design will only apply prospectively for facilities not yet approved by the SPP Board; previously approved upgrades will not be reallocated.

5. Governance

The MWTG has developed an approach to join the SPP RTO that accommodates the differences between the needs of the MWTG and SPP's existing governance provisions. As a result, there are certain rights (e.g., planning, zonal issues and cost allocation) that the MWTG seeks to preserve through development of a Westside Transmission Owners Committee, similar to what exists in other RTOs.

Overall, MWTG seeks to adopt the existing SPP governance provisions and stakeholder processes with certain modifications.

a. **WestTOC**: Creation of a Westside Transmission Owners Committee ("WestTOC") with decision-making authority over certain issues reserved to the committee and the authority to direct SPP to file proposals on the reserved issues, pursuant to Section 205 of the Federal Power Act.

b. **RSC-West:** Creation of a Westside division of the SPP Regional State Committee ("RSC-West") comprised of state regulators having authority over load-serving member utilities of SPP located in the western interconnection. RSC-West will have primary authority for determining the approach for resource adequacy across the SPP region in the Western Interconnection and the right to direct SPP to file the methodology pursuant to Section 205 of the Federal Power Act. In addition, if post-integration into SPP, WestTOC files non-ministerial changes to Westside transmission cost allocation, the RSC-West will have the right to direct SPP to make a competing filing pursuant to FPA Section 205.

c. **Board Authority:** MWTG proposes that the SPP Board will not have authority to make changes in the areas reserved to the WestTOC. Also, MWTG proposes that all SPP Board of Directors voting be done by open ballot instead of secret ballot.
d. **Committee Seats:** MWTG requests that seats be added on SPP Board committees for Westside representation.

6. Competitive Bidding Process

MWTG accepts the Order 1000 competitive bidding process developed by SPP subject to the following conditions and changes:

a. MWTG requests two separate FERC 1000 planning regions (East and West) under a single SPP Tariff.
b. Projects eligible for Order 1000 competitive bidding must 1) receive regional cost allocation, 2) have an installed cost greater than $25M and 3) if a transmission line, be greater than 50 miles in length.
c. MWTG will have a project proposal process that is transparent and the timing of the process will be consistent with the SPP Detailed Project Proposal process.
d. There will be no bonus points associated with the MWTG project proposal process.

7. Western Area Power Administration ("WAPA") Specific Provisions

a. As regions within a Federal entity, WAPA LAP and CRSP will have certain requirements similar to WAPA-UGP, such as various statutory provisions, withdrawal provisions, net billing, WAPA's rate review standard with FERC, limitation on financial penalties, ability to represent a co-supply obligation of load, etc. Most of these are in the SPP tariff section 39.3 and will be expanded to LAP and CRSP.
b. The Federal Service Exemption ("FSE") from transmission expansion costs (SPP tariff 39.3(e)(i)) will be expanded to apply to WAPA LAP and CRSP. LAP and CRSP will be exempt from the West-side regional cost allocation of 200kV and higher voltage projects with a cost greater than $15M. This exemption from regional costs applies regardless of whether the regional cost is allocated through load ratio share, or by a benefit study to the applicable zones.
c. The FSE from marginal congestion and loss components for statutory load transactions in the SPP Marketplace (SPP tariff 39.3(e)(ii)) will be expanded to apply to WAPA LAP and CRSP.

8. Administration Fee (Schedule 1A)

The current budgetary Schedule 1A rate in 2020 is expected to be approximately $0.48/MW-hr. With the addition of the MWTG members, the rate would be reduced to about $0.43/MW-hr, an administrative fee savings of about $16-25 million per year to existing SPP members for the first 3 years and over $150 million net present value for the first ten years of MWTG membership. Furthermore, SPP's administrative rate is higher than the rates proposed by other RTOs that MWTG has evaluated. In recognition that the increased Schedule 1A revenue from MWTG joining SPP which will result in savings to existing SPP members, and for the prospect of additional expansion opportunities of interconnected utilities in the West, MWTG and SPP staff agree that a portion of the reduced Schedule 1A fees to existing SPP members remain with the new members for the first three years after MWTG integration. The three year phase-in of benefit to existing SPP members permits a transition period for MWTG members to fully realize the RTO benefits after consideration of start-up costs, and is a critical component of the seven year cost shift mitigation agreement referred to in section 1.

Year 1 = 60% admin fee
Year 2 = 65% admin fee
Year 3 = 70% admin fee
Thereafter = 100% admin fee

9. Implementation Dates

a. The MWTG members and SPP will make their best effort to pursue a market implementation date of October 1, 2019.
b. MWTG plans to transition from the WestConnect to the SPP Order 1000 process.
c. MWTG members are receptive to taking RC services earlier than October 1, 2019 to help facilitate the transition and integration into SPP's Integrated Marketplace, however, the MWTG members do not consent to being charged for RC services from two entities simultaneously.