Southwest Power Pool

Southwest Power Pool, Inc.

Policy Recommendation for the SPP Board of Directors and Members Committee

March 6, 2018

Mountain West Transmission Group

Policy Area #1 – DC Ties

Recommendation

SPP and MWTG anticipate that incorporating the four DC-Ties into the SPP market will provide production cost savings, savings from sharing operating reserves, and additional strategic expansion opportunities for both the East and West footprints. SPP proposes to optimize the Integrated Marketplace across the East and West Balancing Authorities in a single market solution and dispatch the DC-Ties on a 5-minute basis.

Consistent with administering transmission service under a single tariff, transmission service hurdle rates and associated scheduling burdens will be removed across the DC-Ties. To recognize the benefits afforded by the DC-Ties and to enable market optimization between the East and West, the existing Annual Transmission Revenue Requirements ("ATRRs") of the DC-Ties[1] are proposed to be allocated to all East and West zone loads on a Load Ratio Share basis and also to exports across the entire SPP footprint utilizing a new DC-Tie rate schedule for a 7-year phase-in period. The total existing ATRRs to be allocated will be capped at $23 million, before any ARR/TCR conversion credits, for this phase-in period.

Prior to the termination of the 7-year phase-in period, SPP will perform a benefit analysis of the existing DC-Ties. This benefit analysis will use the normal SPP planning process to allocate the ATRR of the existing DC-Ties remaining in the DC-Tie rate schedule at the end of the 7 year phase-in to those West and East zones that are determined to benefit from the DC-Ties.

During the 7 year phase-in period, as well as after, any additional investment costs above the cap required to maintain or enhance the capacity of an existing DC-Tie, add additional DC-Ties, or remove the DC-Ties will be analyzed in the normal SPP planning process. Those costs will be allocated to those transmission zones in the West and East expected to receive benefits, proportional to the benefits provided. The allocation of investment costs will include any related AC facilities that are deemed to be cost-beneficial to members in both the West and East. Should any upgrades in either the West or East be projected to degrade transfer capability between the regions, additional upgrades would be required to at least restore the transfer capability and would be included in the costs of the upgrade assigned to that region. If the results of SPP's planning process cannot justify the additional investment costs above the cap, prior to proceeding with investments above the $23 million ATRR cap that are required to

[1] Currently approximately $18.4 million.

maintain or enhance the capacity of an existing DC-Tie, existing firm rights holders on the DC-Tie will determine if it would be more cost effective to terminate their DC-Tie service vs. the anticipated maintenance or enhancement investments.

The cost allocations for the ATRR of the existing DC-Ties would be treated as regional cost allocations for the application of the FSE provisions. During the 7 year phase in period, WAPA will make a settlement payment to SPP. SPP will use this payment to reduce the total DC-Tie ATRR.

After the 7 year phase-in period, or for costs above the $23 million cap during the 7 year phase-in period, the cost allocation changes from a load ratio share to a benefit based allocation using the normal SPP planning process. Under that benefit-based cost allocation, any "WAPA FSE benefit across the tie" will be identified in the benefits study to capture any benefit of WAPA using the ties for FSE transactions; WAPA utilization of the DC ties for FSE purposes would be allocated its share of use under the applicable DC tie revenue requirement.

Three revenue streams help offset the costs paid by loads for the DC-Ties' ATRR:

1) an additional new rate charged to firm transmission customers whose firm transmission service crosses the DC-Ties **<u>and</u>** who choose to nominate their candidate ARRs and are awarded ARRs which will be self-converted to TCRs;
2) point-to-point revenue paid into the aforementioned DC-Tie rate schedule; and
3) ARR excess revenues that result from those paths crossing the DC-Ties sold in the TCR auction will be included in the ARR excess revenue process and distributed to all candidate ARR holders using an ARR excess revenue distribution process.

<u>Rate Charged to DC-Ties Transmission Service Customers</u>
Transmission Customers who hold long term firm transmission service across the DC-Ties who choose to nominate their Candidate ARRs and are awarded ARRs on the DC-Tie path, **<u>must</u>** convert any awarded ARRs to TCRs and pay a pro-rata share of the gross ATRR of the DC-Ties **<u>in addition</u>** to the applicable rates for network or point-to-point transmission service. Transmission Customers who opt not to nominate their Candidate ARRs are not required to pay any additional charges beyond their applicable rates for network or Point-to-Point transmission service. Candidate ARRs that are not nominated and any incremental capacity made available by the DC-Ties that is not awarded in the nomination process will be made available for purchase in the TCR Auction.

The revenue generated by the additional fee paid by the firm transmission customer for awarded LTCRs and ARRs for paths across the DC-ties will be used to credit the parties paying the DC-Tie ATRR allocated to loads across SPP, similar to the treatment of Point-to-Point revenues offsetting the rate for the new DC-Tie schedule as described below.

DC-Tie Point-to-Point Revenue
All exports from SPP will be assessed the new rate schedule for the DC-Ties in addition to the existing schedules paid by those transactions (7 or 8, 11, etc.). As with other Point-to-Point revenues collected for those schedules, revenues collected for the new DC-Tie schedule will also be utilized to reduce the rate for the DC-Tie schedule.

ARR Revenue for DC-Ties Paths
As any awarded ARRs are required to be self-converted to TCRs, there will be no ARR holders for paths across the DC-Ties. As such, any ARR revenue associated with the DC-Tie paths sold in the TCR auction would be credited to all ARR candidate holders on the basis of their nomination caps via an ARR excess revenue allocation process.

Market Implementation
A TCR holder on a path crossing a DC-Tie would receive a credit (or charge) for the difference in the Locational Marginal Prices (net of the Marginal Loss Component) between the source and sink. MWTG and SPP are still evaluating the market design issues associated with TCRs across DC-Ties.

The rights to submit or request that SPP submit appropriate filings regarding proportional allocation of the revenue requirement of shared transmission facilities between SPP East and SPP West is covered under Policy Item #3 below.

SPP receives revenue from MISO based on its use of the SPP transmission system without service. That revenue would not be shared with the West TOs.

Additional details about the DC-Tie recommendation and operations are provided in the previously distributed DC-Tie Whitepaper. The policy recommendation will override any conflicts between this Policy recommendation and the DC-Tie Whitepaper.

Policy Area #2 – Schedule 1A Fee

Recommendation

A three year phase-in of the Schedule 1A fee applied to transmission customers of the MWTG utilities will be provided as follows:

a. Year 1 = 60% admin fee
b. Year 2 = 65% admin fee
c. Year 3 = 70% admin fee

After Year 3 of membership, transmission customers of the MWTG would be charged the full Schedule 1A fee. The proposed phase-in would not apply to customers of additional transmission owners seeking to join SPP unless it is determined to be appropriate through discussions pertaining to the integration of the additional non-MWTG entity. The Schedule 1A fee to be assessed to both MWTG and existing members upon MWTG membership may include a 5-year repayment of the implementation costs necessary to integrate MWTG into SPP and be treated as deferred assets and financed during the implementation period.

Policy Area #3 – Reservation of Transmission Owner Rights

Recommendation

Certain transmission rate-related items are recommended to be preserved for decision by West members or East members under a West voting structure and an East voting structure. Both the scope of the preserved items and the voting structure will be defined in the SPP Bylaws. For the remainder of this discussion, the preserved items are referenced as "Enumerated Areas in the Tariff" or "Enumerated Areas."

The following are the Enumerated Areas of the Tariff or "Enumerated Areas":

(a) East and West regional cost allocation. This includes the recommended Z2 creditable upgrade methodology recommended below in Policy Item #20 as well as the current East Z2 crediting methodology;

(b) East and West Zonal rate design;

(c) East and West RTOR design (Point-to-Point);

(d) East and West Zonal Construct. This includes Westside Zonal Process and Criteria detailed below;

(e) East and West RTOR revenue distribution/mitigation;

(f) East and West sponsorship model and whether to award bonus points to project sponsors in the competitive solicitation process. This includes the recommended changes in the West in Policy Area #6 below;

(g) Changes to the East and West definition of Transmission Facilities in Attachment AI during the initial 10 years of MWTG SPP membership.

The following are the Enumerated Areas of the Tariff that require both East and West approval under the voting structures below:

(h) Determination whether SPP-West will combine with SPP-East for purposes of Order 1000 compliance to change what is recommended in Policy Area #5 below;

(i) Changes to cost allocation for existing DC Ties during the initial 7 year phase-in period of SPP membership;

For the two listed items that require both East and West approval if approval is not obtained from both the East and West then any party could file under Section 206.

The initial construct for the Enumerated Area in these recommendations will be implemented by SPP and the MWTG with the assistance of the SPP working groups and committees. After approval, the Board will submit the tariff, bylaw and membership agreements to the FERC in a Section 205 filing. Neither the Board nor the RSC will submit separate Section 205 filings for the initial constructs that the MWTG has developed for the Enumerated Areas.

Both the scope of the Enumerated Areas in the Tariff and the voting structures will be defined in the SPP Bylaws. After integration, any future revisions in the voting structures or Enumerated Areas in the Tariff that would result in modifications to the Bylaws or Membership Agreement would be considered by the Corporate Governance Committee (CGC). Upon approval of any revision by the CGC, the West Transmission Owners (TOs) would then vote on the proposed modifications to the West voting structure or Enumerated Areas in the Tariff using the two-factor vote and West TO definition detailed below. If the West TOs vote to approve the change, the Board will direct SPP staff to make a Section 205 filing to implement the change. If the West TO approval vote fails, the matter would no longer be considered for revision.

MOPC voting on issues that are not related to the Enumerated Areas in the Tariff would occur under the current TO/TU voting structure with SPP's existing definition for Transmission Owners determining who qualifies as a TO.

After integration of the recommendations of this document in the Tariff, any future modifications to the Tariff in the Enumerated Areas would be considered by the Markets and Operations Policy Committee (MOPC). The changes would normally originate in the appropriate SPP organizational groups, although any SPP member, including the West or East TOs retain an appeal right to the MOPC in the event a Revision Request related to the Enumerated Areas is rejected by the working groups. In order for the MOPC to approve changes in the Enumerated Areas for the West for those provisions located in the Tariff, the MOPC vote would be taken of (1) the Transmission Users (TUs) with interests on the west side; and (2) all the West TOs (respecting the West TO definition detailed below). The two vote percentages would be averaged. The West TO vote would be taken using the two-factor vote and West TO definition detailed below. If the West TO vote passes, the West TO vote would be deemed to be 100% in the affirmative for purposes of the MOPC averaging calculation. If the West TO vote fails, the West TO vote would be deemed to be 0% in the affirmative for purposes of the MOPC averaging calculation. Approval would require that the average be greater than 66%.

MOPC voting to approve changes for the East to the enumerated East areas in the Tariff will continue as is performed presently, except West Members will not vote.

The TUs with interests on the West side would consist of any member that owns transmission, generation, or distribution assets or Independent Power Producers, Independent Transmission Companies, and Marketers in SPP-West who does not qualify as a TO under the West TO definition detailed below.

For changes in the Enumerated Areas in the Tariff, if the MOPC voting as West approve changes by the respective approval vote requirements, SPP would be required to file those changes under Section 205. For changes to West transmission cost allocation, this would trigger the ability of the RSC to also require SPP to make a competing Section 205 filing.

Nothing stated in these recommendations preclude anyone including the Board and the RSC from making 206 filings.

In addition, the Board will continue to have its current authority to direct Staff to make section 205 filings to all other areas of the Tariff, Bylaws, and Membership Agreement. Should the Board desire to take action on the voting structures or Enumerated Areas in the Tariff for which action was not approved by either MOPC or the CGC, their remedy would be a filing under Section 206.

In the event a proposed tariff change involves one of the Enumerated Areas, the voting structures or list of Enumerated Areas set forth in the SPP Bylaws was supported by the West TOs, but was rejected by MOPC or CGC (as applicable), the West TOs would have the right to appeal the change to the SPP Board of Directors. If the SPP Board of Directors elects to accept the change, then SPP would make a filing with FERC under Section 205. If the SPP Board of Directors elects *not* to accept the West TO proposal, then SPP would file the West TO change with FERC under Section 205 and the SPP Board of Directors (or the RSC for changes to West transmission cost allocation) would have the right to make competing filing under Section 205.

After 9 years, the BOD and West TOs will establish a taskforce to review the provisions provided under these Enumerated Areas and propose any modifications that could be warranted based on the experiences under those provisions. Any recommendations from the taskforce or any changes to the governance structure, as described in this document, must be approved by affirmative votes of the BOD and the West TOs as detailed in the above voting structures in order to be implemented.

West TO definition: Any Westside TOs that own 40 or more miles of 100 kV or above Transmission Facilities under the SPP Tariff.

West TO two-factor vote: The vote of the West TOs will be based on two voting segments, with both segments requiring approval for an issue to pass. Segment 1 is a Senate-style vote with one member receiving one vote, and 80% approval required. Segment 2 is a House-style vote with weighted voting based on the TO's ATRR and requires 67% approval. Proportional reallocation of the weighted voting will be applied to TOs that exceed 20% of the weighted share of the segment. Also, both voting segments include rules to prevent affiliated entities from being able to veto a vote without the support of another TO.

West Zonal Construct and Changes to SPP West Zone Structure:

> The Westside Zonal Process is similar to the current SPP Zonal Placement Communication Process, but includes specific Westside Zonal Criteria for entry (which will be applied independently by SPP) and a mitigation requirement. Under the Westside Zonal Process, any applicant transmission owner ("ATO")

that seeks entry into a Westside zone must provide notice per SPP's zonal placement process; provide analytical information needed for SPP to perform zonal placement and analysis of rate impacts; satisfy Westside Zonal Criteria for entry into existing zone; and, mitigate the zonal rate impacts. There is also an opportunity for the Impacted Westside TOs and the ATO to negotiate prior to a FERC filing if there is disagreement as to the zonal placement proposal. If the ATO and any impacted Westside TO do not agree with SPP's zonal placement proposal, they have 30-days to negotiate prior to SPP's filing with the Commission. If, at the end of the 30-day negotiation period, the ATO and any impacted Westside TO have not reached an agreement as to zonal placement, SPP will proceed with a FERC filing that is consistent with the results of SPP's zonal placement analysis undertaken pursuant to the Westside Zonal Process. All parties reserve the right to protest any such filing with the Commission.

The Westside Zonal Criteria will be included in the SPP Tariff, as applied to the West. After the integration in the SPP Tariff, these criteria will apply to subsequent TOs integrating into SPP in the Western Interconnection. They will also apply to the MWTG after expiration of a Quiet Period, which Quiet Period is described below.

MWTG has agreed to a "Quiet Period" of 7 years, during which none of the MWTG participants can initiate any changes to the zones set at integration, transfer load or facilities to a different zone, or add new zonally-allocated facilities to an initial zone recommended in Policy Area #7, subject to limited agreed upon exceptions. After the Quiet Period, a MWTG participant must satisfy the Westside Zonal Criteria and mitigation requirements in order to change the zonal construct in SPP West. The Quiet Period applies only to the initial MWTG participants and not to new potential entrants.

SPP will also apply the Westside Zonal Criteria and mitigation requirements when SPP receives a request for a change to the zonal structure in the west after integration. The voting structure, described above, will be used to approve a change to the Westside Zonal Criteria and mitigation requirements.

The "Changes to the Westside Zonal Construct" apply for a TO to add load and/or facilities to an existing zone or remove load and/or facilities from an existing zone; or after a TO is integrated, a proposal that would re-configure or re-align the zonal construct; or a proposal that would cause a Westside TO to enter a different zone.

Westside Zonal Criteria[2]:

1. Absent express agreement of the Impacted Westside TOs, if the addition of an ATO load and/or facilities to an existing zone results in an increase in transmission rates of 15% or greater, the ATO must be its own zone; and
2. Absent express agreement of the Impacted Westside TOs, to be included in an existing zone, the ATO's ATRR must be less than the ATRR of the smallest Westside zone; and
3. To be included in a Westside zone, the ATO facilities must be "Transmission Facilities" under Attachment AI of the SPP OATT as applicable to the Westside; and
4. Absent express agreement of the Impacted Westside TOs, the ATO must have network load and Transmission Facilities within or contiguous to an existing zone with networked electrical connection between the ATO and the entry zone; and
5. Absent express agreement of the Impacted Westside TOs. an ATO other than a transmission-only company shall only include Transmission Facilities in an existing rate zone if it also includes Load served using those facilities in that existing rate zone; and
6. Absent express agreement of the Impacted Westside TOs, the ATO must have direct interconnection with the entry zone, which can be demonstrated as follows:
    1. an Impacted Westside TO uses the ATO's facilities to serve its end use customers' demand; and/or
    2. the ATO uses an Impacted Westside TO's facilities to serve the ATO's load/customers; and/or
    3. the ATO has a significant amount of Transmission Facilities physically connected to the existing Westside zone where entry is sought that are owned jointly with an Impacted Westside TO already in the existing Westside zone; and/or
    4. there is a demonstrable history of the ATO engaging in joint or coordinated planning and operations with an Impacted Westside TO already in the existing Westside zone.[3]

The Mitigation Requirements for Changes to the Westside Zonal Construct are defined as:

[2] These criteria will apply to all proposed Changes to the Westside Zonal Construct other than removal of load and/or facilities from a Westside zone.

[3] MWTG is finalizing language which will detail how this language should be applied vis a vie a transmission only company.

1. If entry of an ATO results in 2% or less zonal rate impact, no mitigation is required.
2. Absent express agreement of the Impacted Westside TOs, if the zonal rate impact is greater than 2%, the ATO must mitigate the existing zone for 10 years.
3. During the first 7 years, the ATO will make payments to the Impacted Westside TOs to reduce the zonal rate impact to no more than 2%.
4. During the last 3 years of mitigation, the ATO makes payments to the Impacted Westside TOs to reduce the zonal rate impact based on a phase out schedule:
    - Year 8: 75% of mitigation payment per calculation;
    - Year 9: 50% of mitigation payment per calculation;
    - Year 10: 25% of mitigation payment per calculation.

If an ATO meets this criteria and enters an existing zone and then is required to upgrade or add facilities to meet system adequacy based on a comprehensive SPP evaluation of system sufficiency, the ATO is prohibited from recovering the cost of upgrades in the zonal ATRR.

An ATO that exits a zone pursuant to this criteria remains responsible for all costs assigned to it prior to its effective date of exit.

Consistent with Policy Area #13, SPP and the MWTG members will ask FERC to extend the Mobile-Sierra standard of review to the Enumerated Areas of the Tariff, detailed above, related Bylaws, and Membership Agreement provisions, and the voting rights described above.

SPP and the MWTG members will elicit informal feedback from FERC staff and the Commissioners regarding the provisions of Policy Area #3. Should the feedback suggest that protection for the Enumerated Areas, related Bylaws, and Membership Agreement provisions and related voting rights is not likely, they will work to develop an approach to these issues that is more defensible.

Policy Area #4 – West-Only Transmission Cost Allocation

Recommendation

Transmission costs for new and existing AC facilities are not to be shared between SPP East and SPP West members (except as agreed in Policy Area #1).

The recommended regional cost allocation methodology in the West (MWTG Base Plan Funding) is based on voltage and cost characteristics. Upgrades identified through SPP's regional planning process for new network transmission facilities operating at 200kV or higher and at least $15 million in cost would be eligible for regional cost sharing, as long as the upgrades included in a recommended portfolio collectively exceed a Benefit/Cost ratio of 1.25. Upgrades less than 200kV or less than $15 million would be allocated to the zone(s) in which the upgrade is located.[4]

Upgrades above $15 million that are between 200kV and 300kV will be allocated 30% based on load ratio share and 70% to benefiting transmission zones based on benefits identified in the planning process. Upgrades above $15 million that are greater than 300kV will be allocated 50% load ratio share and 50% to the benefiting zones. Benefit metrics used in the planning process will be consistent for both West and East, and the same set of metrics will be used to assign costs to benefiting zones in the West. The metrics will only change from ITP to ITP if approved through the SPP stakeholder process, which will be inclusive of all stakeholders.

One exception to the cost allocation methodology described above is proposed for upgrades operating below 200kV that would not be necessary but for an upgrade operating above 200kV. These lower voltage upgrades are effectively “coupled” with the higher voltage upgrades, so a portion of these less than 200 kV upgrades will be eligible to be cost allocated according to the 200 kV-300 kV thresholds. The amount of lower voltage upgrade costs that could be cost allocated in this manner would be capped at 20% of the cost of the higher voltage upgrade.

Cost allocation for Interregional Projects in the West would use the above cost allocation methodologies for the portion of Interregional Project costs allocated to West members. Interregional Projects in the West are not cost allocated to SPP members in the Eastern Interconnection and Interregional Projects in the East are not cost allocated to SPP members in the Western Interconnection.

Cost allocation for network or point-to-point transmission service and generator interconnection Network Upgrades in the West are to be directly assigned to the respective customers using SPP’s current methods for allocating costs to all customers in a particular study group. No “safe harbor” limit or regional cost allocation is recommended for network customers.

Network Upgrades in the West identified from a change to a NITS customer’s NITS agreement in regards to load Delivery Points (Attachment AQ) are cost allocated using the MWTG Base Plan Funding for projects greater than 200kV and $15M, except the host Zone would be allocated the portion of costs that would otherwise be assigned based on a benefits test.

WAPA-UGP’s Federal Service Exemption (FSE) is to be extended to WAPA-RMR and WAPA-CRSP but be slightly modified only to accommodate the different Base Plan Funding regional cost allocation. The WAPA-RMR and WAPA-CRSP FSE transmission cost allocation exemption would apply to regionally shared projects regardless of whether they are allocated to the region via load ratio share or to the zones based on

[4] The MWTG utilities are currently reviewing their cost allocation and competitive bidding criteria based on feedback from FERC. Once that review is completed, these cost allocation eligibility criteria may be adjusted.

benefit. The WAPA-LAP and WAPA-CRSP FSE cost allocation exemption would not apply to projects below 200kV or under $15 million. The WAPA-RMR and WAPA-CRSP FSE exemption from congestion charges and marginal losses would be basically the same as that of WAPA-UGP. (See also Policy Area #15.)

The reasonableness of the cost allocation methodologies described above are to be periodically reviewed beginning in the fifth year following the first West regionally allocated project being placed into service. Additionally, West TOs may request review of 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.

Policy Area #5 – Transmission Planning

Recommendation

The SPP regional planning process, specifically the ITP, will accommodate locally planned upgrades resulting from a FERC approved local planning process that is included in the SPP Tariff and is openly coordinated among MWTG planners and stakeholders. MWTG locally planned upgrades would 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.

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 those local upgrades that are "coupled" and required to be constructed in concert with a regional upgrade. A portfolio of proposed regional solutions in SPP West must be reviewed by the MWTG stakeholders before being submitted to the SPP Board for approval[5].

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

[5] The MWTG Transmission Owners will have a key role in identifying the preferred reliability upgrades below 200 kV to serve the long-term 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 MWTG stakeholders through the review process.

common regional planning process to identify best solutions in both the East and West, including upgrades or utilization of the combined system that would be beneficial to both east and west.

Policy Area #6 – Order 1000 Process

Recommendation

The existing Order 1000 competitive bidding process developed by SPP (as modified from time to time) will be incorporated by MWTG subject to the following conditions and changes:

- The Order 1000 competitive bidding process in the West shall only be applicable to facilities which receive regional cost allocation and have an installed cost greater than $25M and transmission lines greater than 50 miles in length. The $25M figure would be indexed to the Handi-Whitman utility price index.[6]
- SPP will not employ a sponsorship model applying to SPP-West without the express approval of the West TOs.
- For competitively bid projects in the West, SPP will not award bonus points (whether formally or informally) for submitting a project idea into the SPP planning process– e.g. remove the 100 bonus points for the evaluation process for projects in the West.
- SPP will still administer a project submittal window for the West's transmission projects, but will not award detailed project proposal (DPP) bonus points.
- Project ideas may still be submitted as part of the planning process.

Any proposed adjustments to the Order 1000 competitive bidding process, as applicable to the West, must be approved through the voting process described in Policy Area #3.

Policy Area #7 – Rate Zones and Cost Shift Mitigation

Recommendation

The MWTG will have the following transmission rate zones:

a. WAPA Loveland Area Projects including Cheyenne Light, Fuel & Power
b. Public Service Company of Colorado including a portion of the Tri-State facilities and loads
c. Tri-State: Tri-State Facilities and loads within the MWTG footprint that are not in the PSCo zone including Missouri Basin Power Project (MBPP) facilities in the West.
d. Platte River Power Authority
e. Colorado Springs Utilities
f. WAPA Colorado River Storage Project

[6] The competitive bidding eligibility criteria are under review by MWTG based on feedback from FERC. As such, the criteria spelled out in this bullet may be adjusted.

g. Black Hills Colorado Electric
h. Common Use System: Facilities and loads of Black Hills Power, Powder River Electric Cooperative, and Basin Electric Power Cooperative other than the MBPP facilities.

Figure 2: Current MWTG Tariffs

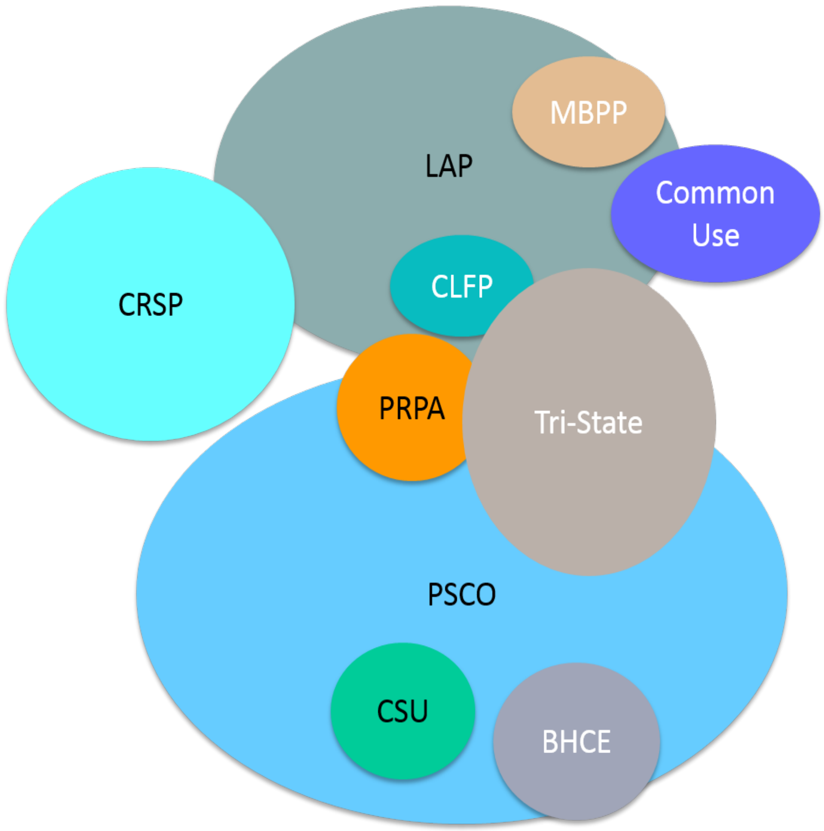
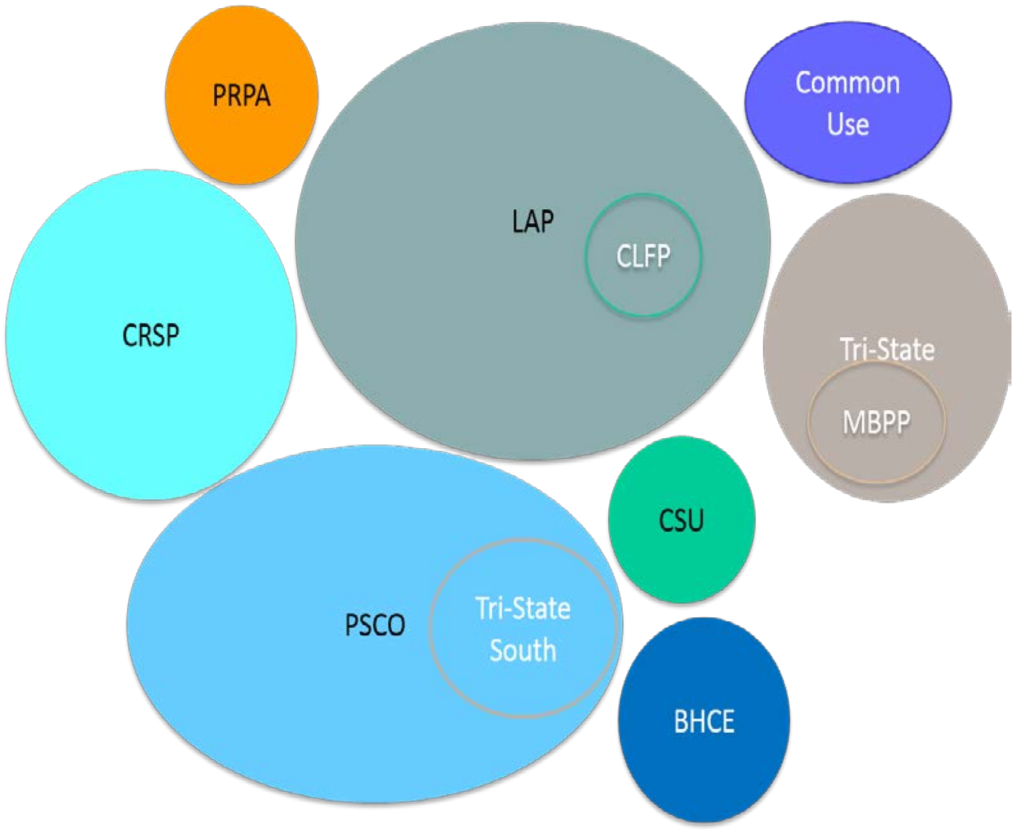


Figure 3: Proposed MWTG Zones in SPP Tariff



SPP will file to include in its Tariff and will administer a seven (7) year multi-way cost shift mitigation settlement to address certain adverse cost shifts. MWTG participants have reached resolution of the cost shift terms, and with limited exceptions during the quiet period, none of the Westside establishing members can make any changes to the Westside zonal construct during the seven year period.

SPP West Point-to-Point Transmission Rate: SPP will be the transmission service provider in the MWTG region. Any point-to-point transmission service originating within and exiting the West footprint will be priced at the RTOR which will equal the sum of the West ATRR divided by the sum of the SPP West 12-cp loads (i.e. a postage stamp rate). During the seven year term of the multi-way cost shift mitigation settlement agreement, RTOR revenues will first be used to fund the cost shift mitigation described above. Revenues in excess of those required for cost shift mitigation will be shared with the West transmission owners based on 60% MW-Mile and 40% ATRR. After the seven year term of the multi-way cost shift mitigation settlement agreement, all RTOR revenues arising from point-to-point transmission service originating within and exiting the West footprint will be shared with West transmission owners based on 60% MW-Mile and 40% ATRR.

SPP will administer one or more of the cost shift mitigation mechanisms resulting from the joint pricing zones if requested by the joint pricing zone and filed with FERC as an attachment to the SPP Tariff.

Policy Area #8 – RSC Expansion

Recommendation

The states within the MWTG footprint will utilize the RSC as a forum for state regulators to provide direction and input on matters pertinent to the participation of all Members in SPP.

After integration, there would still be a single RSC. The RSC may perform its functions using two divisions, East and West. The state regulators in the East could consider issues pertaining exclusively to the East, and state regulators in the West could consider issues pertaining exclusively to the West. A regulator representing a state with facilities in both the East and West could consider issues pertaining to both. Finally, state regulators on the East and West could consider issues common to both East and West.

However, unlike the situation currently in place in SPP, and with regard to the West cost allocation methodology and cost allocation eligibility criteria, the RSC West could not unilaterally initiate a Section 205 filing to change cost allocation in the West but only in reaction to a Section 205 filing by SPP initiated after approval under the voting structures described and preserved as set forth in Policy Area #3.

Policy Area #9 – Required Approvals

Recommendation

It is recommended that clarity be added in the Membership Agreement Section 5.1 that initial membership in SPP is contingent upon all Federal, State, governing board and other regulatory approvals and that a negative regulatory outcome for any prospective member in the MWTG allows reconsideration by other MWTG participants. This provision does not apply to ongoing participation in SPP if and after regulatory approval is obtained and a member commences transmission service under the SPP tariff. The Membership Agreement and the participation of the MWTG participants is contingent upon the receipt of such FERC, other Federal, state regulatory, local authority, or other governing board or governing body approvals of the proposed changes to the Membership Agreement, Bylaws, OATT and service agreements, as any MWTG participant, in its sole discretion deems necessary, and on terms any MWTG participant deems, in its sole discretion, to not adversely affect it. In the event such approvals are not granted, the Membership Agreement shall be of no effect, subject to good faith negotiation obligations. For a period of time after the non-approval, all MWTG entities and SPP shall attempt to address the reasons for such non-approval in substitute documents. If the good faith negotiations fail to produce substitute documents, the MWTG entities who received the non-approval will have no financial or further obligation under the Membership Agreement. In the event any one of the MWTG participants do not receive Regulatory Approval or otherwise exercise the rights to withdraw its request for integration under Section 5.1, for a period of time after the expiration of the failed good faith negotiation period, any other MWTG participant may also exercise its rights to not integrate under Section 5.1 and will have no financial or further obligations under the Membership Agreement. If any MWTG participant exercises its rights to not integrate under Section 5.1, it shall not be subject to any withdrawal obligations other than those obligations associated with the withdrawing MWTG participant's share of the integration costs incurred by SPP, as provided for in a separately executed Transition Services Agreement (TSA).

<u>(No Proposed Changes) Policy Area #10– Board of Directors Voting Changes</u>

<u>Policy Area #11 – Board Committee Changes</u>

Recommendation

It is recommended to increase the Members Committee seats (One additional IOU; one additional Cooperative; and, one additional Municipal) and to ensure the Members Committee is representative of Members in the Western Interconnection. Organizational Group representation appointed by the Board of Directors should consider the various types and expertise of Members, their geographic locations, including proportional representation of the Eastern and Western Interconnection based on each Interconnection's load ratio share, to achieve a widespread and effective representation of the Membership.

It is recommended to add four additional seats (Two for TO Members and two for TU Members) to the Strategic Planning Committee and that new seats be filled in order to ensure representation of Members from the Western Interconnection.

Although it is desired to utilize existing SPP working groups where practicable, MWTG and SPP continue to explore whether certain MOPC working groups should have separate working groups to address West versus East issues.

<u>Policy Area #12 – Membership Termination / Withdrawal Changes</u>

Recommendation

The SPP Bylaws are recommended to be changed to affirmatively address that a merger / corporate combination of two existing members does not trigger a withdrawal obligation as long as all of the load and transmission facilities of both combined members stay under the SPP Tariff.

Additionally, the Bylaws and Membership Agreement are recommended to be changed to recognize that a Member may avoid the allocation of costs for transmission projects resulting from an ITP Assessment if the Member provides notice of intent to withdraw to SPP at least 30 days prior to the commencement of the economic model development for the ITP Assessment or January 31, whichever is later.

For any other planning cycle, the Member's notice of intent to withdraw must be submitted at least 30 days prior to the commencement of the model development for that planning cycle in order to avoid potentially being allocated costs for transmission projects from that planning cycle, unless a date for commencement of model development is not evident. In the latter event, the withdrawing Member and SPP shall negotiate in good faith the withdrawing Member's responsibility for upgrade costs once notice of intent to withdraw is provided. If the withdrawing Member and SPP are unable to reach resolution, the dispute shall be subject to the SPP OATT dispute resolution process. The standard for evaluation in the dispute resolution process shall be the extent to which the withdrawing Member's date of notice (and removal from the model development) is disruptive to the planning cycle.

Following a Member's notice of intent to withdraw, remaining Members shall have a one-time period of 30 days within which to also provide SPP with a notice of intent to withdraw and avoid the allocation of transmission project costs pursuant to this provision.

In order for transmission project costs to be avoided under the foregoing sections, the Member must effectuate termination consistent with the date given in the notice of intent to withdraw.

Policy Area #13 – Mobile Sierra Protection of Certain MWTG Proposals

Recommendation

SPP will work with MWTG to request certain of its proposals be afforded the public interest standard of review at FERC. This means that any party (including SPP, FERC or any third party) must demonstrate that any proposed change to any of these provisions (including enabling provisions in the Bylaws, Membership Agreement and Tariff) is in the public interest, as opposed to just and reasonable. Mobile Sierra standards would be afforded to the changes to the Bylaws as necessary to implement the changes recommended in Policy Area #3 above.

(No Proposed Changes) Policy Area #14 – New Member Request for Consultation

Policy Area #15 – Federal Service Exemption

Recommendation

WAPA RMR and WAPA CRSP face similar issues to joining an RTO as WAPA UGP did in joining SPP. Because of certain federal statutes, WAPA RMR and WAPA CRSP would be integrated within the Federal Service Exemption (FSE) from marginal losses and congestion in the market as well as regional cost allocation for new transmission projects as discussed above in Policy Area #1. For WAPA-UGP, this concept in the SPP Tariff is the FSE. WAPA CRSP also has additional circumstances, which includes potentially extending the FSE to certain off-system sales and is clarifying with SPP the treatment of certain non-federal resources as eligible for the FSE.

Policy Area #16 – Definition of Transmission Facilities

Recommendation

A change to the definition of what facilities qualify to be transmission under the SPP Tariff is recommended that differs slightly from the existing Attachment AI definition. Transmission Facilities in the West will include all existing non-radial lines, substations, and associated facilities, operating at **100 kV** or above, plus all radial lines and associated facilities operated at or above **100 kV** that serve two or more Eligible Customers not Affiliates of each other. Additionally, clarifying language will be added around DC-Tie facilities that do not alter the current application of Attachment AI with regard to DC-Ties.

Policy Area #17 – Resource Adequacy

Recommendation

MWTG entities request that SPP perform a LOLE study of the MWTG footprint to verify the appropriateness of adopting a single minimum planning reserve margin for the MWTG region, with due consideration of the DC-tie capacities. The LOLE study will not be performed prior to membership in SPP.

Initially upon joining SPP, MWTG will not be subject to SPP's current resource adequacy requirements or accreditation rules under the SPP Planning Criteria or those filed, or to be filed, in Attachment AA that are pending FERC approval. A decision about assuming similar requirements will be made after SPP has performed the LOLE study.

Determination of the accreditation rules for intermittent generation, which may be an effective load carrying capability (ELCC) method will be developed after MWTG integration into SPP and reviewed and approved by the RSC.

Policy Area #18 – Capacity Market Prohibition

Recommendation

There will not be a capacity market within the SPP West footprint. Any consideration of a future capacity market in SPP region, including the West, would be considered pursuant to the RSC's existing responsibilities when and if such a market is ever proposed.

Policy Area #19 – "Interregional" Point-to-Point Revenue Distribution

Recommendation

For point-to-point transactions that span the DC-ties (source in one interconnection and sink in the other), revenues from the assessment of Schedule 7 or 8 (firm and non-firm Point-to-Point rates) are proposed to be shared between the East and the West on a load ratio share basis. Once divided between the East and the West, the respective revenue allocation methodologies would be used to distribute the Schedule 7 or 8 revenues to TOs within each interconnection.

Policy Area #20 – Transmission Crediting Alternative to Attachment Z2

Recommendation

Instead of implementing the current Attachment Z2, the recommended design to be used for providing credits for directly assigned upgrade costs (DAUC) or sponsored upgrades in the West would utilize "excess" ARR revenues allocated to the West as a source of funding to provide customers with DAUC or sponsored upgrades credits when those upgrades provide incremental value to the network and are valued by the TCR market. This instrument is currently being called an Auction Revenue Credit (ARC).

Excess ARR revenues are generated through the TCR auction anytime a TCR is bought on a path that is not directly associated with an ARR. In the current tariff in the East, the magnitude of excess ARR revenues is significant and is paid back to ARR holders based on a ratio of nomination caps (similar to load-ratio-share). In the combined SPP East and West market, the excess ARR revenues will be allocated to the East and West based on the same ratio of nomination caps. The funding of the ARC would be through the share of "excess" ARR revenues for the West.

To administer the ARC process, SPP would perform a one-time study to determine the incremental MWs that were made available to the grid on that facility. These identified incremental MWs would be "awarded" to the customer or sponsor as a "quantity" to be valued in all future TCR auctions once the upgrade goes into service for the life of the facility. The value in the TCR auctions would be derived by establishing pricing nodes at each end of the DAUC upgrade or sponsored upgrade in order to determine the value or "price" of that facility.

The ARC is proposed to be "option style", meaning the value can never be negative. As long as the excess ARR revenues in the West are sufficient to cover all ARCs, customers and sponsors will receive the full value of their ARC as determined by the TCR auction. If the excess ARR revenues in the West are not sufficient to cover all ARCs, all ARCs will be allocated credits based on a value-based pro-rata share. If no excess ARR revenues are generated from the TCR auction, ARCs will not be paid until excess ARR revenues are available.

The advantage of this approach is that the ARC value and the revenue received by customers who are directly assigned costs or choose to sponsor upgrades is determined by the value those upgrades provide to the market. Upgrades in more congested areas of the network will be valued higher than upgrades where congestion is infrequent. Additionally, the use of the excess ARR revenues to fund the credits does not interfere with the ability for customers to receive ARRs or TCRs. It is believed that the costs to administer the ARC process will be minimal, and substantially less than Z2, because it leverages the existing ARR/TCR process.