Cost Allocation Alternatives:
Process for CAWG and RSC

CAWG Meeting
February 21, 2007

Process Defined

Process as defined herein involves to basic components:
1. Content – what is to be considered
2. Schedule – when and by whom
Content Considerations

- Benefit to Cost Ratio Qualifications
- Beneficiaries Calculations
- Cost Allocation Alternatives
- Applying Beneficiaries Tests

Benefit to Cost Ratio

- Benefits metrics (e.g., Adjusted Production Cost Savings) tend to measure maximum theoretical benefits
  - Treatment of Ancillary Services
  - Differences between bids and costs
  - Factors that result in higher costs
    - Absence of Day-Ahead market
    - Load forecasting
    - Others
- Need to determine B/C ratio qualification for cost allocation; e.g., 1.25 to 1
- Need to determine if B/C ratio qualification applies to projects vs. portfolios of projects.
  - Can a project qualify if B>C, but an overall portfolio must meet a B>1.25*C standard?
Beneficiaries Calculations

- Key is beneficiaries % of portfolio benefits.
  - What benchmarks are needed at the load-serving entity level of granularity to provide good checks and balances?
  - What are the key uncertainties for which sensitivities need to be performed?
- Need to discuss how portfolio is designed.
  - High voltage backbone system and lower voltage systems needed to deliver benefits to customers.
  - What design elements are necessary to produce a “balanced” portfolio – one that results in a fairly uniform distribution of benefits?
- Need to determine importance of the timing of projects within the portfolio to cost allocation.
  - Early beneficiaries vs. Later beneficiaries

Cost Allocation Alternatives

- Allocation of Higher Voltage (345 kV) Backbone System
  - Beneficiaries Pay
  - Postage Stamp
  - Usage Charges (Load Flow)
    - e.g., TOU or MWh charges on imports and exports
  - Combinations of Above
- Allocation of Lower Voltage Delivery Systems
  - Beneficiaries Pay
  - License Plate
    - e.g., costs allocated to zone in which facilities are built
  - Usage Charges
  - Combinations of Above
- Combined or Portfolio Allocations
  - All of the above w/o separation based on voltage
Applying Beneficiaries Tests

• Portfolio Calculations
  – Period for calculation (7-10 years)
  – Phase-in of cost allocation
• Criteria for Cost Allocation
  – Allocated costs cannot exceed expected benefits
• Adjustments to Basic Cost Allocation
  – Adjustments to basic cost allocation to meet criteria

Schedule Considerations: CAWG

• Overall Time Frame
  – Complete alternatives by July 2007 RSC meeting.
  – Final determination by October 2007 RSC meeting
• Sequencing of Discussions on Contents
  – March: Emphasis on B/C Qualification
  – April: Emphasis on Beneficiaries Allocations
  – May-July: Emphasis on Cost Allocation Alternatives
  – Aug-Oct: Application of Cost Allocation Alternatives to proposed portfolios with emphasis on Beneficiaries Tests – more details at August meeting.
• Number of meetings per Month
  – One meeting face-to-face (day before RTWG meeting)
  – Follow-up teleconference meeting to discuss recommendations, with face-to-face as needed.
Schedule Considerations: RSC

• Presentation of Results to RSC
  – Each month present recommendations to the RSC
  – Determine whether this needs to be an “official” RSC meeting – probably done by teleconference
  – At RSC face-to-face meeting in April: Present recommendations made thus far for official vote of approval.
  – At RSC face-to-face meeting in July: Present recommendations for official vote of approval on Cost Allocation Alternatives.
  – At RSC face-to-face meeting in October: Present final recommendation for official vote of approval.

SPP Staff Inputs to Process

• Critical to have SPP Staff at March and April meetings to discuss technical aspects of calculating benefits and providing input to recommendations.
• Critical to have SPP Staff applying cost allocation alternatives to portfolios and presenting results during the August to October CAWG meetings.