

ATTACHMENT Z1

AGGREGATE TRANSMISSION SERVICE STUDY PROCEDURES AND COST ALLOCATION AND RECOVERY FOR SERVICE UPGRADES

I. Introduction

This attachment describes the process used to evaluate long-term transmission service requests using an Aggregate Transmission Service Study process. The Transmission Provider will combine all long-term point-to-point and long-term designated network resource requests received during a specified period of time into a single Aggregate Transmission Service Study. Using this Aggregate Transmission Service Study process, the Transmission Provider will combine all requests received during an open season to develop a more efficient expansion of the transmission system that provides the necessary ATC to accommodate all such requests at the minimum total cost. For the purposes of this Attachment Z1, all Transmission Owners that are not taking Network Integration Transmission Service under this Tariff will be treated the same as Transmission Customers taking Network Integration Transmission Service under this Tariff. This attachment also details cost allocation and cost recovery for Service Upgrades, for directly assigned costs that are in excess of the Safe Harbor Cost Limit for Service Upgrades associated with new or changed Designated Resources and cost recovery for Network Upgrades associated with generator interconnections.

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II. Open Season

The Aggregate Transmission Service Study process commences with the initiation of an open season. The open season will be 4 months in duration. During that period, customers may make requests for long-term transmission service that start no earlier than 6 months after the close of the season. Customers may submit and withdraw requests during the open season without any obligation. At the close of the open season, the Aggregate System Impact Study (ASIS) will include only queued requests for which Aggregate System Impact Study Agreements (ASISAs) have been executed. At the close of the open season, customer will have 15 days to execute such ASISAs per Section 19.1 of the Tariff for Firm Point-to-Point Transmission Service and Section 32.1 of the Tariff for Network Integration Transmission Service. If the request for transmission service is associated with a new or changed Designated Resource, the customer must provide all the information required in the Completed Application for new or changed Designated Resources in accordance with Section 29.2 of this Tariff, and return the Completed Application along with the executed ASISA within 15 days of the close of the open season to the Transmission Provider. If the customer elects not to execute the System Impact Study Agreement or does not return the Completed Application within the prescribed 15 day window, its Application shall be deemed withdrawn. Existing long-term firm service customers who desire to exercise a reservation priority under Section 2.2 of the Tariff shall do so pursuant to the terms of Section 2.2.

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III. Aggregate System Impact Study

a. Except for the time period provided below, at the close of an open season, all transmission service requests subject to an ASISA will be included in the related ASIS. After January 1, 2008, at the close of the first two consecutive open seasons, all transmission service requests subject to an ASISA for this pair of consecutive open seasons will be included in one ASIS. On an ongoing basis and ending January 31, 2010, the Transmission Provider shall combine each subsequent pair of consecutive open seasons for analysis in one ASIS. These studies shall be done in accordance with Section 19.3 of the Tariff for Firm Point-to-Point Transmission Service and Section 32.3 of the Tariff for Network Integration Transmission Service. For the open seasons closing during the period January 1, 2008 through January 31, 2010, for the purpose of determining the sixty (60) day period for completing the ASIS in accordance with Sections 19.3 and 32.3, the sixty (60) day period will begin upon the close of the second (in the pair) open season's fifteen (15) day window for a customer to execute an ASISA. The power flow models shall be developed for each season for the period from the earliest start of service to the latest end of service for the applicable requests. The models will include all other applicable existing reservations having equal or greater queue priority including prospective renewals of existing service having a reservation priority pursuant to Section 2.2 of the Tariff. System constraints will be identified and appropriate upgrades determined during the ASIS. The Transmission Provider shall determine the upgrades required to reliably provide all of the requested service. The Transmission Provider shall also perform a regional review of the required upgrades to determine if alternative solutions would reduce overall cost to customers. The Transmission Provider shall estimate the total cost of these upgrades.

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b. The Transmission Provider shall recognize constraints due to contractually limited facilities and allocate available capacity on a first come first served basis on the contractual constraint only.

c. Within the ASIS the Transmission Provider will identify the facilities limiting the availability of the requested aggregate transmission service and the upgrades required to provide this service. It will also provide an estimate of the cost of those upgrades. The assignment of upgrade costs to each reservation will be provided to enable customers to estimate their costs. Upon receipt of the ASIS, customers will have 15 days to execute an Aggregate Facilities Study Agreement (AFSA) per Section 19.4 of the Tariff for Firm Point-to-Point Transmission Service and Section 32.4 of the Tariff for Network Integration Transmission Service.

IV. Aggregate Facilities Study

a. The Transmission Provider shall perform an Aggregate Facilities Study including the requests of all customers who have executed an AFSA. The first phase of the Aggregate Facilities Study process shall consist of a revision of the ASIS to reflect the withdrawal of requests. The Aggregate Facilities Study shall be done in accordance with Section 19.4 of the Tariff for Firm Point-to-Point Transmission Service and Section 32.4 of the Tariff for Network Integration Transmission Service. For the open seasons closing during the period January 1, 2008 through January 31, 2010, for the purpose of determining the sixty (60) day period for completing the Aggregate Facilities Study in accordance with Sections 19.4 and 32.4, the sixty (60) day period will begin upon the close of second (in the pair) open season's fifteen (15) day window for a customer to execute an AFSA. The Transmission Provider, in conjunction with the applicable Transmission Owners, shall determine the necessary cost and lead-time for construction of each upgrade and the estimated cost of service for each request. The Transmission Provider, in conjunction with the applicable Transmission Owners, shall determine the optimal set of solutions to reduce the overall costs for the study group and reliably provide the requested service in a timely manner.

b. Upon completion of the subsequent Aggregate Facilities Study reflecting the withdrawal of requests, the Transmission Provider shall provide the customer a Service Agreement and the customer shall execute the Service Agreement or request the filing of an unexecuted Service Agreement in accordance with Section 19.4 of the Tariff for Firm Point-to-Point Transmission Service and Section 32.4 of the Tariff for Network Integration Transmission Service.

V. Cost Allocation for Service Upgrades

The cost of Service Upgrades shall be allocated in accordance with this Section.

a. For the purpose of determining the cost responsibility for each transmission service request, all upgrades required to provide transmission service for all transmission service reservations included in an Aggregate Facilities Study shall be included in an Aggregate Cost Allocation Assessment. The cost of each transmission upgrade component will be allocated to each customer in the aggregation group on a pro-rata impact basis as provided in paragraph b. With regard to the cost allocation, the Transmission Provider shall review all upgrades and determine the earliest date that each upgrade is required to be in-service in order to provide the requested transmission service. This date is the Date Upgrade Needed. The cost of a facility upgrade shall be allocated to all customers in the aggregate group whose reservation period begins after the Date Upgrade Needed or extends past the Date Upgrade Needed, whether or not an interim redispatch option is available. If the Date Upgrade Needed for the upgrade is after completion of service, no cost will be allocated to the customer for the upgrade under consideration.

All requests that have a positive impact on the upgrade and for which the service has not been completed prior to the Date Upgrade Needed for such upgrade, shall be allocated costs for the upgrade; and the Transmission Provider shall review these requests in order to determine the amortization period for the facility. For this determination, the start date of the

amortization period shall be the expected in-service date of the facility. The end date for the amortization period shall be the end of the term of the request that ends at the latest point in time as adjusted for deferral of any requests.

In the event the expected in-service date of the upgrade is after the Date Upgrade Needed, the customers whose requests span a portion of the time between the Date Upgrade Needed and the expected in-service date may:

1. Defer the start of the request until the expected in-service date of the upgrade; or
2. Request interim redispatch, if available.

If the customer selects the interim redispatch option, the Transmission Provider will evaluate curtailment of existing confirmed service or interim redispatch of units to provide service prior to completion of any allocated network upgrades. The Transmission Provider will provide the top 100 redispatch pairs, if available, to relieve the incremental MW impact on the limiting facilities. This redispatch option will be used to allow the customer to begin transmission service based on an earlier start date than the deferred date. Redispatch services shall be provided in accordance with Attachment K of the Tariff.

b. An allocation of the cost of each facility upgrade to each request shall be determined on a pro-rata basis for the positive incremental power flow impacts of the

requested service on such upgraded facility in proportion to the total of all incremental impacts on such upgraded facility. For each upgraded facility identified, the average incremental power flow impact of each request in the aggregate study shall be determined using each summer model available for the aggregate study period, after the Date Upgrade Needed of such upgraded facility. Each impact amount shall be determined by first establishing a set of initial seasonal base cases that excludes flows associated with all requests included in the Aggregate Facilities Study. Then each request will be added to the models and the change in flow across such upgraded facility shall be determined for each request included in the Aggregate Facilities Study. The cost of an upgrade allocated to each request shall be proportional to the average positive incremental impact of each request on such facility divided by the total average positive incremental impact of all requests included in the Aggregate Facilities Study on such upgraded facility. The cost of each upgrade shall be allocated to requests independently. Incremental flows having a negative impact on an upgraded facility shall be ignored.

c. After concluding the above cost allocations to each reservation in the aggregate group, the Transmission Provider shall determine the charges for each request by using the levelized monthly revenue requirement associated with the transmission service requested by each customer in the aggregate group. This levelized monthly revenue requirement is determined by calculating the present worth of the revenue requirements associated with the upgrades as allocated to each customer in the aggregate group and then calculating an appropriate monthly amount for each customer in the aggregate group for each respective reservation.

VI. Cost Recovery for Service Upgrades

The cost of Service Upgrades shall be recovered in accordance with this Section. For Point-to-Point Service, the levelized monthly revenue requirement derived from the cost allocation process shall be compared to the charge applicable for each request under the transmission access charges of Schedule 7, Sections 1 and 7; and each customer shall be required to pay the higher of the total monthly transmission access charges or the monthly revenue requirement associated with the directly assigned portion of the Service Upgrade, if any. For Network Integration Transmission Service, the charge shall be a direct assignment charge pursuant to Schedule 9, Section 4; and each customer will be required to pay the monthly revenue requirement associated with the directly assigned portion of the Service Upgrade, if any, in addition to the total monthly transmission access charges applicable under Schedule 9, Sections 1 and 6. Cost recovery from a customer of the revenue requirement for the directly assigned portion of a Service Upgrade allocated to such customer will be accomplished over the duration of the customer's transmission service request.

For Service Upgrades associated with Designated Resources, to the extent a waiver is not granted pursuant to Section III of Attachment J, the cost in excess of the Safe Harbor Cost Limit of Service Upgrades associated with Designated Resources shall be recovered in accordance with this Section VI. Transmission Customers paying the above charges may receive credits in accordance with Attachment Z2.

VII. Cost Recovery for Network Upgrades Associated with Generation Interconnection

Each Generation Interconnection Customer shall be required to pay for the Network Upgrades associated with a generation interconnection in accordance with the terms of its interconnection agreement.

Generation Interconnection Customers shall receive credits in accordance with Attachment Z2 for the Network Upgrades associated with generation interconnection service funded by the Generation Interconnection Customer.

ATTACHMENT Z2

REVENUE CREDITING FOR UPGRADES

I. Revenue Crediting

Transmission Customers paying Directly Assigned Upgrade Costs for Service Upgrades or that are in excess of the Safe Harbor Cost Limit for Network Upgrades associated with new or changed Designated Resources and Project Sponsors paying Directly Assigned Upgrade Costs for Sponsored Upgrades shall receive revenue credits in accordance with this Attachment Z2. Generation Interconnection Customers paying for Network Upgrades shall receive credits for new transmission service using the facility as specified in Attachment Z1. The credit amount shall be recovered, with interest calculated in accordance with 18 CFR §35.19a(a)(2)(ii), from new transmission service using the facility as defined below until the credit due is zero. The provisions of this Attachment Z2 are applicable to Transmission Owners subject to the provisions of Section 39.1 of this Tariff.

1. New Point-To-Point Transmission Service: Revenues from new Point-to-Point Transmission Service that could not be provided but for the new Network Upgrade will be included for crediting purposes. For each new point-to-point reservation that could not be provided but for the new Network Upgrade, made after (i) the commitment for such new Network Upgrade by a Project Sponsor or (ii) the request causing the need for such new Network Upgrade, with service commencing after or extending beyond the date the facility upgrade is completed, the Transmission Customer or Project Sponsor shall receive a portion of the transmission service charge equal to the positive response factor of such new reservation on the new Network Upgrade times the portion of the new reservation capacity that could not be provided but for the new Network Upgrade times the rate applicable to such new reservation.

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For crediting purposes, the Transmission Provider shall perform a one-time calculation of the response factor of such new reservation on the new Network Upgrade. This allocation from new service shall continue until the Transmission Customer or Project Sponsor has been fully compensated for all charges paid in excess of the normally applicable transmission access charges pursuant to Schedules 7, 8 or 9 and 11.

2. **New Network Integration Transmission Service and Service to Transmission Owners Taking Service Under Non-Rate Terms and Conditions:** Credits will be provided for (i) new Long-Term Network Integration Transmission Service, and (ii) new transmission service taken under the non-rate terms and conditions of this Tariff by Transmission Owners subject to Section 39.1 of this Tariff, that could not be provided but for the new Network Upgrade to accommodate designation of new Network Loads or Transmission Owner's(s') loads, new Designated Resources or increases in the designation of existing Designated Resources above previously designated levels. Credits shall be determined based upon the subsequent incremental use of the Network Upgrade for such new or increased Network Load or Transmission Owner load or Network Resource.

The annual credit amount to be billed and paid monthly by a Network Customer, or included in rates, for each such new or increased use shall be the product of the annual revenue requirement associated with the Network Upgrade and the ratio of the incremental impact placed on the Network Upgrade by each such new or increased use to the total of the incremental impacts placed on the Network Upgrade by all currently and previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses of the Network Upgrade. For the calculation of such credits to be given to a Project Sponsor paying Directly Assigned Upgrade Costs associated with the Network Upgrade, the incremental use assigned to such Project Sponsor shall be the capacity of the Network Upgrade minus all currently and previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses. The cost of such credit amount shall be paid by the Network Customer making such new or increased use of the Network Upgrade, or included in rates pursuant to the Base Plan and Balanced Portfolio funding formulas in Attachment J, in addition to all other applicable charges under this Tariff.

- a. For use of Service Upgrades, such credits shall be given to the original Transmission Customer paying Directly Assigned Upgrade Costs for the Service Upgrade and to all previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses, including prior incremental Network Integration Transmission Service uses that resulted in the obligation to pay credits. The grant of such credits shall be in proportion to the fraction of the annual revenue requirement associated with the Network Upgrade for which they are responsible, net of any credits previously applied.

b. For use of Sponsored Upgrades, such credits to a Project Sponsor paying Directly Assigned Upgrade Costs for a Sponsored Upgrade shall be given first to the Project Sponsor from new transmission service using the Sponsored Upgrade until the credit due to the Project Sponsor for that Sponsored Upgrade is zero. Then such credits shall be given to all previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses, including prior incremental Network Integration Transmission Service uses that resulted in the obligation to pay credits. The grant of such credits shall be in proportion to the fraction of the annual revenue requirement associated with the Network Upgrade for which they are responsible, net of any credits previously applied.

3. **Power Controlling Devices:**

a. **New Network Integration Transmission Service:** Credits will be provided for new Long-Term Network Integration Transmission Service using the device in either direction to accommodate designation of new Network Loads, new Designated Resources or increases in the designation of existing Designated Resources above previously designated levels. Credits shall be determined based upon the subsequent additional incremental use of the device by any such new or increased use.

The annual credit amount to be billed and paid monthly by a Network Customer, or included in rates, for each such new or increased use shall be the product of the annual revenue requirement associated with the device and the ratio of the incremental impact placed on the device by each such new or increased use to the total of the incremental impacts placed on the device by all currently and previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses of the device in both directions. For the calculation of such credits to be given to a Project Sponsor

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paying Directly Assigned Upgrade Costs associated with the device, the incremental use assigned to such Project Sponsor shall be the capacity of the device in both directions minus all currently and previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses of the device in both directions. The cost of such credit amount shall be paid by the Network Customer making such new or increased use of the device, or included in rates pursuant to the Base Plan and Balanced Portfolio funding formulas in Attachment J, in addition to all other applicable charges under this Tariff.

- i. For use of Service Upgrades, such credits shall be given to the original Transmission Customer paying Directly Assigned Upgrade Costs for the Service Upgrade and to all previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses, including prior incremental Network Integration Transmission Service uses that resulted in the obligation to pay credits. The grant of such credits shall be in proportion to the fraction of the annual revenue requirement associated with the Network Upgrade for which they are responsible, net of any credits previously applied.
- ii. For use of Sponsored Upgrades, such credits to a Project Sponsor paying Directly Assigned Upgrade Costs for a Sponsored Upgrade shall be given first to the Project Sponsor from new transmission service using the Sponsored Upgrade until the credit due the Project Sponsor for that Sponsored Upgrade is zero. Then such credits shall be given to all previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses, including prior incremental Network Integration Transmission Service uses that resulted in the obligation to pay credits. The grant of such

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credits shall be in proportion to the fraction of the annual revenue requirement associated with the Network Upgrade for which they are responsible, net of any credits previously applied.

- b. **New Point-to-Point Transmission Service:** Crediting for Long-Term Firm Point-to-Point Transmission Service using the power controlling device in either direction shall be a portion of the transmission service charge equal to the positive response factor of such new reservation on the device times the new reservation capacity times the rate applicable to such new reservation less any revenue credits applicable to other Network Upgrades on the transmission path. Crediting for Short-Term Firm Point-to-Point Transmission Service and Non-Firm Point-to-Point Transmission Service using the device in either direction shall be the percent usage of the total revenue received by the Transmission Provider that is not required for other transmission funding obligations.

II. Future Roll-In

When a facility upgrade being paid for pursuant to the provisions of Attachment Z1 to this Tariff is rolled into the revenue requirements used for the development of generally applicable transmission service rates, the Transmission Owner that constructed the facility upgrade shall pay the remaining balance of each customer's unrecovered payments described in Sections VI.A and VI.B of Attachment Z1 that are applicable to that facility upgrade. All customers who have upgraded facilities and have remaining balances subject to cost recovery pursuant to Section VI of Attachment Z1, shall be paid in full. The customer shall continue to pay the charges specified in the customer's transmission service agreement for the transmission service initially reserved.

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