

TRANSMISSION STANDARD EXTENSION POLICY

1.0 General Items

1.1 Applicability: NPPD's standard extension policy governs the extension and furnishing of electrical service (new load) to Customers (Retail Service Providers) that require extensions at the Transmission level of service. The standard extension policy shall be considered in conjunction with the provisions of NPPD's various rate schedules and other policies of the NPPD.

- 1.1.1** This policy applies to all requests for service, at any voltage level, that result in the need for an extension of the NPPD-owned transmission system, and/or includes the addition/expansion of associated transmission-level substations (high side voltage of 115,000 volts or greater). All such requests for service shall meet the applicable requirements listed in NPPD's Facility Connection Requirements (as posted on nppd.com).
- 1.1.2** This policy specifies the minimum requirements associated with transmission extensions associated with unique load growth that is attributable to specific end-use customers. It does not prohibit agreements for extension that exceed the minimum requirements specified herein.
- 1.1.3** Transmission extensions that develop from forecasted organic load growth and are not attributable to a unique end-use customer are excluded from requirements of this policy.

Note: examples of applicable requests include new (or expanded) large industrial customer point load, upgrades required for step load increases that come from the Southwest Power Pool (SPP) AQ study process, desire for backup service, or build-out of new energy park that meets the qualifications herein. It is noted here that transmission upgrades that come from NPPD's asset management program (e.g., "repairs and replacements") are not considered "requests for service".

1.2 Philosophy: The philosophy of NPPD is to provide the best possible service to Customer at the most reasonable investment, while also reasonably protecting other customers of NPPD from rate increases. One important reason on why this policy is needed is to put measures in place that ensures stranded costs are recovered if a new load does not show up, or if the new load does not fully justify the stranded cost expenditure under existing rates. NPPD has agreements with most of our transmission customer that allows them to change providers if overall rates fall outside a certain range of the "National Rural Utilities Cooperative Finance Corporation" (CFC) and transmission rates are part of that CFC metric. All applicable options for meeting the service needs shall be given consideration when determining the required investment and subsequently applying the extension policy.


1.3 Authority: This document supersedes all previous policies or decisions concerning NPPD's transmission extension policy. The application of the extension policy to the various situations and types of Customers shall be as outlined below.

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1.4 Customer: This policy would allow the “customer” to be the Retail Service Provider that is a direct customer of NPPD transmission service (preferred), or to transfer this policy to the end-use customer, if applicable and so desired by the Retail Service Provider.

1.5 Retail Service Provider: These are the transmission paying customers of NPPD, including but not limited to the NPPD Retail business, who provide retail service to their end-use customers.

1.6 Use of Load Data from the End Use Customer: The end use customer load information needed for and used by the policy, documented per Section 8 below, include:

1.6.1 Peak Load (Megawatts and mega-volt-amps) – this is the maximum load the end use customer will place on NPPD’s assets. This shall be the basis for the studies, design, and construction cost estimates of the upgrades.

1.6.2 Minimum Guaranteed Energy Consumption (also called Full Build Out Condition)– This is the average annual energy consumption determined over a period of a minimum of 2 years (maybe longer for phased in load growth) starting at Commercial Operation, with the number of years to also be defined by the end use customer. This will be used to determine the Annual Net Revenue in Section 4, as well as to estimate revenues to NPPD when determining future rates.

1.6.2.1 If the actual average energy consumption is less than the Minimum Guaranteed Energy Consumption, NPPD shall have the option to convert a portion of the Security to a Formula Contribution in Aid of Construction prior to releasing the Security.

2.0 Ownership

2.1 It is NPPD’s intent to own all extensions of its transmission assets within its service territory, including any that are a direct connection to the Southwest Power Pool Transmission System. Therefore, any extensions of the NPPD transmission system that include a transformation from a high side voltage of 115 kV or higher, would be owned by NPPD unless otherwise determined by NPPD.

3.0 Determining the Cost of Extension at the Transmission Level

3.1 Determine the Total Cost: For all new service involving the extension of NPPD’s transmission system, studies and cost calculations shall be made to determine the total transmission-level expense to be incurred by NPPD to engineer, procure and construct the assets associated with the extension (The “Total Cost”). These costs will include both capital and any O&M expenses incurred during the construction phase (Example: O&M costs involved with moving a used transformer, as part of an extension project, would be included in the total cost). Any expenses paid directly by Customer for its own system installation or upgrade, as well as any expense that the retail service provider may incur, shall not be included in NPPD’s total cost estimate.

3.1.1 When the extension requires the installation of 2 or more transformers (operating at the same voltages) to serve the new load, and the load is larger than the 115 KV mobile transformers

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in NPPD’s fleet, then the scope of work shall also include one (1) installed additional transformer – unless specifically excluded from scope by the Customer and agreed to by NPPD.

3.1.2 If additional transformer(s) are to be added at the Customer’s direction to provide for redundancy, then 50% of all incremental costs associated with the installed additional transformer(s) will be paid for directly by the customer as a Contribution in Aid of Construction (CIAOC), and paid upfront in accordance with the TFCA. The other 50% of the costs will be included as part of the Total Cost calculation. The redundant transformer capacity would be reserved for the customer that funded the 50% of all incremental costs except in emergency situations.

3.2 Determine the Stranded Cost: Unless otherwise limited by the Maximum Stranded Cost Limit in Article 3.3, the Stranded Cost will be equal to the Total Cost of installation to NPPD, less the value of any costs to be excluded as defined below:

3.2.1 Exclude/deduct any costs that are part of the T-Line level of service as defined in the GFPS and/or T-2 rate, with the exception that any costs associated with building any transmission facilities that do not qualify as Transmission System Facilities under attachment AI of the SPP tariff will be considered stranded.

3.2.2 Exclude/deduct the value of any assets to be installed that are not part of the exclusion in 3.2.1 above and could reasonably be used elsewhere in the NPPD system if the load does not materialize. This would include equipment such as transformers, breakers, relays, etc. that NPPD could re-purpose elsewhere in its system, based solely on NPPD’s determination.

3.2.3 Exclude any CIAOC costs as noted in section 3.1.2 associated with additional transformers installed for redundancy purposes

3.2.4 If not already excluded, consider a pro-rated deduct for the avoided cost of replacing assets that would otherwise reach “end of life” in the time period used in the AIL calculation. (e.g. if a small transformer with an expected life of 65 years is being replaced at an age of 56 years, with a much larger transformer that is considered stranded, then determine the cost to replace the small transformer with a “like for like” transformer and deduct 56/65 of that cost from the stranded cost estimate).

3.3 The Maximum Stranded Cost Limit shall be equal to the Peak Load (converted to KW) multiplied by the existing rate for Transmission Line Service, in \$/kW-month (e.g., T-Line) multiplied by \$20 This provision is intended to ensure load increases, that happen to result in large system upgrades, do not become financially limited by this extension policy.

3.4 NPPD’s estimate of the Stranded Cost shall be the basis for completing the Sections 4 through 6, as well as Section 8 of this policy. NPPD’s stranded cost estimates are valid for 3 months unless otherwise noted when provided.

3.4.1 At NPPD’s discretion, once final costs are known (construction is complete), they may be used to update the Total Cost estimate and the Stranded Cost. Within 90 days of construction

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completion, NPPD will then inform the Customer of any changes to the Security or Formula Contribution in Aid of Construction.

4.0 Allowable Investment Limit Formula

4.1 The Allowable Investment Limit for the requested extension shall be determined using the following formula:

Allowable Investment Limit (AIL) = $\sum (ANR \times R)$ _{10-year NPV}, or \$100,000, whichever is greater

ANR = Annual Net Revenue

Annual Net Revenue = ATR – ATC

ATR = Annual Transmission Revenue will be computed by NPPD, based upon existing rates and the Guaranteed Average Energy Consumption provided by the Customer for the new load.

ATC = Annual Transmission Cost are any additional/ongoing cost of serving the additional Customer load, at the transmission level of service, as determined by NPPD (e.g. routine and expected operating and maintenance cost, which may include expected capitalized repairs and replacements). These will be applied over the same time period as the ATR, and will use system average costs where asset additions are being installed (e.g. NPPD will not assign incremental ATC for assets that are being replaced).

In calculating the AIL, the ANR shall be brought to a Net Present Value, using a discount rate consistent with NPPD’s current weighted cost of capital. The ANR will be calculated for a “pay back” period of 10 years.,

R = Risk Factor and shall be = 1.0 (no risk) for each year that Security is provided by the Customer and shall be 0.25 (75% risk) for any year that Security is not provided. This factor represents the uncertainty of the load/revenue stream over the duration of the calculation.

5.0 Justified Expenditures

5.1 In the case under which the AIL exceeds the Stranded Cost Estimate of the extension, the Transmission Extension is considered a Justified Expenditure and therefore the Customer shall not be required to pay any Formula Contribution in Aid of Construction (FCIAOC) as defined in Section 6.0.

5.1.2 However, if the customer fails to achieve the Full Build Out Condition as defined in the TFCA, then;

5.1.2.1 Determine if the actual transmission revenue from service rendered, plus future revenues out to the full 10-year period (where R=0.25 for all future revenues) does not support the AIL as previously determined, and;

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5.1.2.2 The actual plus future transmission revenues indicate that a contribution should have been made per Section 6.0,

Then the Customer shall be billed an amount for the insufficient contribution and/or this will be recovered from the remaining Security.

6.0 Formula Contribution in Aid of Construction (FCIAOC)

6.1 When the Stranded Cost is more than the AIL, Formula Contribution in Aid of Construction is required and is defined as the difference between the Stranded Cost and the AIL. When there is FCAIOC, the following shall apply:

6.1.1 NPPD shall divide the FCAIOC by the number of years that Security is provided, to determine an annual "FAIC Expenditure Adjustment". This expenditure adjustment will be then divided by 12 and added to the monthly bill and will continue until the unjustified expenditure has been collected. The District shall also factor in the current weighted cost of capital to this payment stream.

6.1.2 As an option to the requirements above, the Customer shall provide payment of the FCIAOC prior to the commencement of construction of the extension.

7.0 Security

7.1 The Customer will be required to provide a form of Security that is equal to the value of the Stranded Cost Estimate. However, if the Customer chooses to pay the entire FCAIOC amount prior to the start of construction, the Security may be reduced by that amount. The Security will be in the form of a bond, letter of credit, or other suitable form of security that may be called in the event the Customer fails to make the associated payments credited in that AIL, or otherwise does not meet the terms in the Transmission Facility Construction Agreement (TFCA) as defined in Section 8.0 of this policy. This Security shall be provided in advance of any NPPD's expense associated with the Stranded Cost, or as otherwise defined in the TFCA.

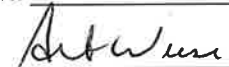
7.1.1 If the Customer is a public power entity, the Security may be in the form of a legally binding contract commitment.

7.2 The duration of the Security shall be for the period beginning on the effective date of the TFCA and ending on the date the facility meets the Full Build Out condition.

7.3 Upon achieving Commercial Operation, the Security may be reduced quarterly, by the associated value of that year's actual payment for transmission service by the Customer, but only for the years in which R=1 in the AIL calculation. NPPD will limit this Security reduction to a cumulative maximum of 50% of the Stranded Cost Estimate or 50% of the actual Stranded Cost (per section 3.4.1) to ensure the load shows up as guaranteed.

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Note that Commercial Operation and Full Build Out Condition shall be fully defined in the Transmission Facilities Construction Agreement (TFCA) and are intended to confirm the (new load) facility is capable of and has operated reliably at the expected load, respectively. If the (new load) facility does not meet the terms of the TFCA, the District may call upon and collect the remaining security as payment for the extension as defined in the TFCA.

8.0 Transmission Facilities Construction Agreement (TFCA)

8.1 Prior to NPPD committing any resources towards the construction of new facilities, the Customer shall enter into a Transmission Facilities Construction Agreement (TFCA) with NPPD. The TFCA shall outline the scope of work to be performed by NPPD, and the commitments of both the Customer and NPPD consistent with this extension policy and any other applicable NPPD policies. Key requirements of a TFCA are:

- 8.1.1 The customer facility and load shall be clearly defined, including the Peak Load (used for designing the facilities) and the Minimum Guaranteed Energy Consumption (used for calculating the AIL and the Full Build Out Condition).
- 8.1.2 The NPPD facilities to be constructed and security provided for shall be defined, along with a target date (good faith effort) for completion of the NPPD facilities.
- 8.1.3 The Security, issuer rating requirements, and if applicable, the schedule for posting Security,
- 8.1.4 Minimum monthly CAMF payments for economic development projects
- 8.1.5 Other key requirements as agreed to by NPPD that are needed to define roles and responsibilities.

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