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October 28, 2009

VIA HAND DELIVERY

Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: *Southwest Power Pool, Inc.*, Docket Nos. ER10-__
Submission of Filing to Update Energy Imbalance Market Offer Cap

Dear Secretary Bose:

Pursuant to section 205 of the Federal Power Act, 16 U.S.C. § 824d, and section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13, Southwest Power Pool, Inc. ("SPP"), submits this filing providing for revisions to its Open Access Transmission Tariff ("OATT" or "Tariff"). Specifically, SPP is incorporating Tariff revisions in order to reflect updates of annual values used in the calculation of offer caps for all pivotal resources in SPP's real-time energy imbalance service market ("EIS Market"). SPP requests an effective date of January 1, 2010 for the Tariff modifications submitted herein. In support, SPP states the following:

I. Background

On January 4, 2006, SPP filed with the Commission in Docket No. ER06-451-000 proposed Tariff revisions intended to implement an EIS Market and establish a market monitoring and market power mitigation plan ("January 4 Filing"). The January 4 Filing included a proposed Section 3.2.4 of Attachment AF, which detailed how SPP would calculate its offer cap during periods of transmission constraints. Specifically, SPP proposed to use a formula of Annual Fixed Costs ("AFC") divided by Annual Hours of Constraint ("AHC") plus variable non-fuel Operations and Maintenance ("VOM") plus the fuel cost of a new natural gas fired combustion turbine peaking resource. Boston Pacific Company, Inc. ("Boston Pacific"), on behalf of SPP, proposed to calculate the AFC of a generic combustion turbine by extrapolating from U.S. Energy Information Administration ("EIA") data to produce a fixed cost per megawatt-year. Boston Pacific also proposed a VOM adder per megawatt hour based on inflation-adjusted EIA data for a combustion turbine. In addition, SPP's proposal provided that any changes to these costs, along with justification for the changes, would be filed with the Commission for approval. The Commission accepted SPP's proposals in an order issued on March 20, 2006.[1]

II. Description and Justification for Tariff Revisions

The purpose of the Tariff revisions submitted in this filing is to reflect updates of annual values used in the offer cap calculation.[2] The variables that are being updated in this filing are the AFC and VOM components. The assumptions in the model approved in the March 20 Order were maintained for the calculations submitted in this filing, with the exception of updating the annual costs that come from the EIA's Assumptions to the Annual Energy Outlook,[3] the interest rate utilized in the model, and inflation. The interest rate and inflation factors were developed consistent with Boston Pacific's testimony filed with the January 4 Filing.[4] The EIA numbers were adjusted to reflect values in 2010 using an inflation factor of 2.01%, which was derived from data available from the Bureau of Labor Statistics, CPI-U (All Items).

The updated analysis indicates that the 2010 values for the components of the offer cap are $100,970/MW-year for the AFC and 3.79 mills/kWh or $3.79/MWh for the VOM costs. The sheets to SPP's Tariff submitted herein have been revised to reflect this updated analysis. SPP has also included worksheets providing the relevant calculations as Exhibit III.

The updated analysis was completed using the same methodology, as well as the same reliable data sources and reasonable assumptions, that the Commission approved in the March 20 Order.[5] In addition, the Commission has previously accepted substantially similar filings by SPP to update its EIS Market offer caps.[6] SPP thus submits that the revisions proposed in this filing are just and reasonable and warrant Commission approval.

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1 *See Southwest Power Pool, Inc.*, 114 FERC ¶ 61,289, at PP 188-89 ("March 20 Order"), *order on reh'g*, 116 FERC ¶ 61,289, at PP 17-25 (2006).

2 The Tariff revisions submitted in this filing include language that is currently pending before the Commission in Docket No. ER09-1050-000, which has not yet been accepted. This language is indicated in italics in the redlined version of the Tariff pages in Exhibit II.

3 The 2009 Assumptions to the Annual Energy Outlook can be found at: http://tonto.eia.doe.gov/FTPROOT/forecasting/0554(2009).pdf.

4 *See* January 4 Filing at Exhibit III, pp. 7-12.

5 *See* March 20 Order at P 189.

6 *See Sw. Power Pool, Inc.*, Letter Order, Docket No. ER09-140-000 (Dec. 11, 2008); *Sw. Power Pool, Inc.*, Letter Order, Docket No. ER08-108-000 (Dec. 18, 2007).

III. Effective Date

SPP requests an effective date of January 1, 2010 for the Tariff modifications submitted in this filing. In addition, SPP respectfully requests that the Commission issue an order approving the proposed Tariff revisions no later than December 28, 2009, which is 60 days after this filing. In order for the calendar year 2010 offer caps to be calculated for January 1, 2010, the components of the calculation must be in place in SPP's database production system no later than December 30, 2009 at 1500 (CDT). Commission approval by December 28, 2009 will provide SPP with sufficient time to make the necessary changes in its database so that the updated offer caps will be in place by January 1, 2010.

IV. Additional Information

A. Information Required by Section 35.13 of the Commission's Regulations, 18 C.F.R. § 35.13:[7]

(1) Documents submitted with this filing:

In addition to this transmittal letter, the following material is provided with this filing: (a) a clean copy of the revised portions of SPP's Tariff, as Exhibit I; (b) a redlined copy of the revised portions of SPP's Tariff, as Exhibit II; (c) worksheets providing the relevant calculations, as Exhibit III; and (d) a list of the parties served, as Exhibit IV.

(2) Effective Date:

SPP requests an effective date of January 1, 2010 for the proposed Tariff modifications.

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7 SPP requests any waivers deemed necessary to utilize the abbreviated filing procedures set forth in section 35.13(a)(2) of the Commission's regulations, 18 C.F.R. § 35.13(a)(2). Good cause exists for granting this waiver. As detailed in this filing, the increase in the offer cap is based on the mitigation formula approved by the Commission in the March 20 Order. The Commission has granted waivers in similar instances. *See Mich. Elec. Transmission Co., LLC and Midwest Indep. Transmission Sys. Operator, Inc.*, 113 FERC ¶ 61,343 (2005) (conditionally accepting filing to increase rates for a Regional Transmission Organization pricing zone where a similar waiver request was made in initial filing).

(3) Service:

SPP has served a copy of this filing on all its Members and Customers, as well as on all affected state commissions. A complete copy of this filing will also be posted on the SPP web site, www.spp.org.

(4) Description of filings:

A description of changes, along with the reasons for these changes, is provided above.

(5) Requisite agreements:

None required.

(6) Costs Alleged or Judged Illegal, Duplicative or Unnecessary:

None.

(7) Basis of rates:

The bases for the offer cap changes are explained above.

(8) Specifically assignable facilities installed or modified:

There are none.

B. Communications:

Correspondence and communications with respect to this filing should be sent to, and SPP requests the Secretary to include on the official service list, the following:

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V. Conclusion

For all of the foregoing reasons, SPP requests that the Commission accept the Tariff revisions submitted in this filing with an effective date of January 1, 2010. SPP also requests that the Commission issue its order accepting the proposed Tariff revisions no later than December 28, 2009. SPP further requests a waiver of any additional Commission regulations that the Commission may deem applicable.

Respectfully submitted,

Barry S. Spector
Matthew K. Segers

Attorneys for
Southwest Power Pool, Inc.

K:\SPP\1001-1048-258 (Offer Cap update filing letter).doc

EXHIBIT I

Offer Caps do not function as price caps on the EIS Market. Resources other than Resource identified under Section 3.2.2 are not subject to an Offer Cap. These resources may bid higher than, and set a price in the EIS Market that is above any Offer Cap.

During periods of constraint on flowgates, Market Participants with Resources subject to Offer Caps as identified under Section 3.2.2 are restricted to submitting Offer Curve prices at or below their respective Offer Caps. All Resources, including those Resources identified under Section 3.2.2, will be charged/compensated based upon the Locational Imbalance Price associated with each Resource.

(a) *Annual Fixed Cost*

The annual fixed cost of a new, natural gas-fired, combustion turbine peaking generation facility shall be based upon the calculated value of the annual carrying cost associated with the recovery of the total fixed costs to develop, build and finance such a facility plus the fixed operation and maintenance costs. Such costs shall be reviewed annually by the Transmission Provider with input from Market Participants. Any changes to such costs, along with justification for the changes, shall be filed with the Commission for approval after such review. Such costs, along with any studies justifying the costs, shall be posted electronically by the Transmission Provider. For calendar year 2010, the Annual Fixed Cost shall be equal to $100,970/Megawatt-year.

(b) *Variable Non-Fuel O&M Adder*

The adder equal to the estimated non-fuel variable operation and maintenance costs of a new, natural gas-fired, combustion turbine peaking generation facility shall be based on the non-fuel operating and maintenance costs of such a facility not included in the calculation of annual fixed costs as described above. Such cost shall be reviewed annually by the Transmission Provider with input from Market Participants. Any changes to such costs, along with justification for the changes, shall be filed with the Commission for approval after such review. Such costs, along with any studies justifying the costs, shall be posted electronically by the Transmission Provider. For calendar year 2010, the Variable Non-Fuel O&M Adder shall be equal to $3.79/Megawatt-hour.

(c) *Annual Hours of Constraint*

The annual hours of constraint will be calculated individually for each affected Resource under Section 3.2.2 of a Market Participant and will be based on the most recent 365 days (366 days for a leap year) of total hours of constraint in the EIS Market for constrained flowgates affecting each Resource. In the event that multiple constraints simultaneously affect a Resource, overlapping hours of constraint will be eliminated from the Offer Cap calculation for such a Resource.

EXHIBIT II

Offer Caps do not function as price caps on the EIS Market. Resources other than Resource identified under Section 3.2.2 are not subject to an Offer Cap. These resources may bid higher than, and set a price in the EIS Market that is above any Offer Cap.

During periods of constraint on flowgates, Market Participants with Resources subject to Offer Caps as identified under Section 3.2.2 are restricted to submitting Offer Curve prices at or below their respective Offer Caps. All Resources, including those Resources identified under Section 3.2.2, will be charged/compensated based upon the Locational Imbalance Price associated with each Resource.

(a) *Annual Fixed Cost*

The annual fixed cost of a new, natural gas-fired, combustion turbine peaking generation facility shall be based upon the calculated value of the annual carrying cost associated with the recovery of the total fixed costs to develop, build and finance such a facility plus the fixed operation and maintenance costs. Such costs shall be reviewed annually by the *Transmission Provider* with input from Market Participants. Any changes to such costs, along with justification for the changes, shall be filed with the Commission for approval after such review. Such costs, along with any studies justifying the costs, shall be posted electronically by the Transmission Provider. For calendar year ~~2009~~2010, the Annual Fixed Cost shall be equal to $100,970~~79,230~~/Megawatt-year.

(b) *Variable Non-Fuel O&M Adder*

The adder equal to the estimated non-fuel variable operation and maintenance costs of a new, natural gas-fired, combustion turbine peaking generation facility shall be based on the non-fuel operating and maintenance costs of such a facility not included in the calculation of annual fixed costs as described above. Such cost shall be reviewed annually by the *Transmission Provider* with input from Market Participants. Any changes to such costs, along with justification for the changes, shall be filed with the Commission for approval after such review. Such costs, along with any studies justifying the costs, shall be posted electronically by the Transmission Provider. For calendar year ~~2009~~2010, the Variable Non-Fuel O&M Adder shall be equal to $3.~~85~~79/Megawatt-hour.

(c) *Annual Hours of Constraint*

The annual hours of constraint will be calculated individually for each affected Resource under Section 3.2.2 of a Market Participant and will be based on the most recent 365 days (366 days for a leap year) of total hours of constraint in the EIS Market for constrained flowgates affecting each Resource. In the event that multiple constraints simultaneously affect a Resource, overlapping hours of constraint will be eliminated from the Offer Cap calculation for such a Resource.

EXHIBIT III

Key Results for Replacement Cost Method

All Prices in 2009$

Combustion Turbine Plant Results

Plant Size, MW	160
Capital Recovery, $/kw-yr	88.11
Fixed O&M Costs, $/kw-yr	12.86
Total Fixed Expenses, $/kw-yr	**100.97**

Key Assumptions for Replacement Cost Method

All Prices in 2009$

Assumptions by Technology Type

	Technology Type
Factor	CT
EPC Cost, $/kw	595
Source	BPC Estimate
Soft Costs, $/kw	138
Source	BPC Estimate
Total Costs, $/kw	733
Source	BPC Estimate
Fixed O&M Costs, $/kw-yr	12.86
Source	BPC Estimate
Plant Capacity	160
Source	BPC Estimate
Tax Depreciation Schedules	15-yr MACRS
Source	IRS Pub. 946

Financing Assumptions (based on BPC experience)

Debt Percent	50.0%
Interest Rate	5.25%
Debt Term, years	15
Repayment Schedule (EPP or Mortgage)	EPP
Min. DSCR	1.5
Target Equity IRR	12.50%
Equity Horizon, years	20

Other Assumptions

Depreciation of Soft Costs	5-yr 150% DB
Source	BPC Models
Federal Tax Rate	35.00%
State Tax Rate	6.00%
Combined Tax Rate	38.90%
General Inflation	2.01%

Combustion Turbine -- Fixed Operating and Capital Recovery Costs

All Costs in May 2009 US$

RESULTS

FIXED COSTS, $/kw-yr:	
Capital Recovery Costs	88.11
Fixed O&M	12.86
Total Fixed Costs	100.97

INPUTS

Plant Capacity, MW:		160		
Escalate Capacity Payments?		1		
(1 = yes, 0 = no)				
Capital Costs:		$000	$/kw	
EPC Price		95,200	595	712
Land		1,500	9	
Legal Fees		1,250	8	
Development Costs		1,500	9	
Vehicles		150	1	
Mobilization		750	5	
Independent Engineer		750	5	
Contingency	@ 3.0%	3,033	19	
Debt Reserve Funding		3,493	22	
Working Capital		3,504	22	
Financing Fees	@ 2.5%	2,860	18	
IDC		3,254	20	
TOTAL CAPITAL COSTS		117,244	733	
Operating Costs				
Fixed Operating Costs, $/kw-yr			12.86	

Financing:	
% Debt	50.0%
Debt Loan, $000	366
% Equity	50.0%
Equity Investment, $000	366
Debt Terms:	
Tenor, yrs	15
Interest Rate	5.25%
Min DSCR	1.50
Schedule (M or EPP)	EPP
Equity Terms	
Length of Investment, yrs	20
Desired IRR	12.5%
Taxes	
Federal Tax Rate	35.00%
State Tax Rate	6.00%
Effective Combined Rate	38.90%
Equipment Depreciation	15
Inflation	2.01%

IRR Check: OK
Debt Repayment Check: OK

Pro Forma for the Calculation of Required Capacity Recovery for a New Combustion Turbine Plant

All Figures are in $/kw-yr

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Revenues																
Capacity Revenue		88	90	92	94	95	97	99	101	103	105	108	110	112	114	116
DSR Interest and Recovery	5%	1	2	2	2	2	2	2	2	1	1	1	1	1	1	1
Total Revenue		89	92	93	95	97	99	101	103	105	107	109	111	113	115	118
Capacity-related Expenses																
Interest on Debt		19	18	17	15	14	13	12	10	9	8	6	5	4	3	1
Principal Payments		24	24	24	24	24	24	24	24	24	24	24	24	24	24	24
Income Tax		-	1	6	9	12	18	20	22	23	24	26	27	28	30	31
Total Capacity Expenses		44	43	47	49	50	56	56	56	56	56	56	56	57	57	57
Distributions to Investors	(366)	46	48	47	46	47	43	44	46	48	50	53	55	57	59	61
IRR					-22.4%	-13.4%	-7.5%	-3.2%	0.1%	2.6%	4.6%	6.2%	7.5%	8.5%	9.4%	10.1%
DSCR		2.02	2.12	2.23	2.35	2.48	2.61	2.76	2.92	3.09	3.28	3.49	3.71	3.96	4.23	4.53
IRR for Target Term	12.5%															
Target IRR	12.5%															

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Debt Calculations																
Year-start Outstanding Liability		366	342	318	293	269	244	220	195	171	147	122	98	73	49	24
Interest Payment		19	18	17	15	14	13	12	10	9	8	6	5	4	3	1
Principal Payment		24	24	24	24	24	24	24	24	24	24	24	24	24	24	24
Income Tax																
Capacity Revenue		89	92	93	95	97	99	101	103	105	107	109	111	113	115	118
Interest Payments		(19)	(18)	(17)	(15)	(14)	(13)	(12)	(10)	(9)	(8)	(6)	(5)	(4)	(3)	(1)
Depreciation		(72)	(71)	(62)	(57)	(52)	(39)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)
Taxable Base		-	2	15	23	31	47	53	56	59	62	66	69	73	76	80
Income Tax	38.90%	-	1	6	9	12	18	20	22	23	24	26	27	28	30	31
Depreciation																
Equipment	623	55	57	51	46	41	37	37	37	37	37	37	37	37	37	37
Soft Costs	66	17	15	11	11	11	1	-	-	-	-	-	-	-	-	-
Total Depreciation	689	72	71	62	57	52	39	37	37	37	37	37	37	37	37	37

Inflation Adjustment

CPI	Inflation	Yearly	Notes
2007	2.85%	102.8%	
2008	3.84%	103.8%	
2009	-0.60%	99.4%	Used Half Year
Effective 3 Yr Rate		106.2%	Compounded
Annualize Rate		2.01%	

$/KW	2008 Current Value from EIA	2010 Inflated for Use in Model
EPC Cost	$ 670.00	$ 711.63
FO&M	$ 12.11	$ 12.86
VO&M	$ 3.57	$ 3.79

Data

Series Id: CUUR0000SA0
Not Seasonally Adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2	Annual Growth	Half Year Growth
1999	164.3	164.5	165	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6	165.4	167.8		
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174	174.1	174	172.2	170.8	173.6	3.36%	3.26%
2001	175.1	175.8	176.2	176.9	177.7	178	177.5	177.5	178.3	177.7	177.4	176.7	177.1	176.6	177.5	2.85%	3.40%
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181	181.3	181.3	180.9	179.9	178.9	180.9	1.58%	1.30%
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185	184.5	184.3	184	183.3	184.6	2.28%	2.46%
2004	185.2	186.2	187.4	188	189.1	189.7	189.4	189.5	189.9	190.9	191	190.3	188.9	187.6	190.2	2.66%	2.35%
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	195.3	193.2	197.4	3.39%	2.99%
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	201.6	200.6	202.6	3.23%	3.83%
2007	202.416	203.499	205.352	206.686	207.949	208.352	208.299	207.917	208.49	208.936	210.177	210.036	207.342	205.709	208.976	2.85%	2.55%
2008	211.08	211.693	213.528	214.823	216.632	218.815	219.964	219.086	218.783	216.573	212.425	210.228	215.303	214.429	216.177	3.84%	4.24%
2009	211.143	212.193	212.709	213.24	213.856	215.693	215.351	215.834						213.139			-0.60%

Source: U.S. Dept. of Labor BLS, CPI All-Urban Consumers, US City Avg. All Items
http://data.bls.gov/cgi-bin/surveymost?cu

EXHIBIT IV

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