

December 27, 2010

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

Re: *Southwest Power Pool, Inc.*, Docket No. ER11-____
Submission of Revisions to Open Access Transmission Tariff to Revise
the Process for Identifying the Designated Balancing Authority
Responsible for Accounting for Self-Provided Losses Relating to
Transactions Through SPP Region

Dear Secretary Bose:

Pursuant to section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, and Part 35 of the regulations of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. § 35, Southwest Power Pool, Inc. (“SPP”), as authorized by its independent Board of Directors, proposes to revise its Open Access Transmission Tariff (“OATT” or “Tariff”) to modify the process for identifying the Designated Balancing Authority (“DBA”) responsible for accounting for self-provided Real Power Losses relating to transactions through the SPP Region. SPP requests an effective date of January 1, 2011 for these Tariff modifications.

I. Background

SPP is a Commission-approved Regional Transmission Organization (“RTO”). It is an Arkansas non-profit corporation with its principal place of business in Little Rock, Arkansas. SPP currently has 61 members serving more than 6 million households and covering a geographic area of 370,000 square miles. SPP’s current membership consists of 14 investor-owned utilities, 9 municipal systems, 12 generation and transmission cooperatives, 4 state agencies, 7 independent power producers, 10 power marketers, and 5 independent transmission companies.

As a RTO, SPP is a transmission provider administering transmission service over facilities located in portions of Arkansas, Kansas, Louisiana, Missouri, Nebraska, New

Mexico, Oklahoma, and Texas. Relevant to this filing, SPP's Tariff requires transmission customers to provide compensation in cash or in kind for all Real Power Losses, which are determined pursuant to Attachment M of SPP's Tariff.¹

II. SPP Stakeholder Process and Approval of Proposed Tariff Revisions

In this filing, SPP proposes to modify its Tariff provisions detailing the process for identifying the DBA responsible for accounting for self-provided Real Power Losses relating to transactions through the SPP Region. These revisions were developed through SPP's stakeholder process, with initial responsibility being delegated to SPP's Market Working Group ("MWG").² On December 1, 2010, the MWG approved the revisions to SPP's Tariff, and forwarded them to SPP's Regional Tariff Working Group ("RTWG").³ On December 2, 2010, the Operating Reliability Working Group ("ORWG") approved the proposed Tariff revisions and determined the proposed revisions would have no reliability impacts.⁴ On December 8, 2010, the RTWG reviewed and approved the MWG's proposed revisions. The proposed revisions were then forwarded to SPP's MOPC for further review and consideration.⁵ On December 17, 2010, the MOPC unanimously voted to recommend to the SPP Board of Directors that the revisions be approved. Subsequently, on the same day, SPP's Board of Directors granted final approval to the Tariff revisions submitted in this filing.

¹ See SPP Tariff at Attachment M (detailing SPP's loss compensation procedure).

² The MWG is responsible for the development and coordination of the changes necessary to support any SPP administered wholesale markets, including energy, congestion management, and market power mitigation consistent with direction from SPP's Markets and Operations Policy Committee ("MOPC"), as well as proposing changes to the SPP OATT to implement suggested market changes.

³ The RTWG is responsible for the development, recommendation, overall implementation, and oversight of SPP's regional Tariff.

⁴ The ORWG maintains, coordinates and implements Criteria related to the reliable and secure operation of the bulk electric system operated by SPP's members, provides oversight and direction for the Reliability Coordinator function of the SPP, and is responsible for ensuring compliance of the SPP Criteria with North American Electric Reliability Corporation Operating Policies and Standards.

⁵ The MOPC reports to the SPP Board of Directors. The representatives to the MOPC consist of an officer or employee of each SPP member. Among its responsibilities, the MOPC reviews proposed tariff changes developed through the stakeholder process and endorses/approves those changes and recommends them to the Board of Directors for approval.

Thus, all of the revisions proposed in this filing have been thoroughly vetted through the SPP stakeholder process, with all entities having an interest able to participate in their development and approval. While SPP recognizes that such stakeholder approval by itself does not cause a filing to be just and reasonable, SPP requests that the Commission provide substantial deference to the wishes of SPP's stakeholders, consistent with its precedent.⁶

III. Description and Justification for Tariff Revisions

SPP's Tariff states that Real Power Losses are associated with all transmission service, and it requires SPP's transmission customers to replace all such losses in accordance with Attachment M of SPP's Tariff.⁷ For transactions associated with service through and out of the SPP Region, Attachment M of SPP's Tariff permits customers to settle their loss responsibility through self-supply.⁸ In such cases, the customer is required to provide self-supplied losses to SPP, which delivers the losses to the DBA

⁶ The Commission has previously recognized that provisions approved through the stakeholder processes of RTOs and ISOs are due deference. *See Sw. Power Pool, Inc.*, 127 FERC ¶ 61,283, at P 33 (2009) (noting how the Commission "accord[s] an appropriate degree of deference to RTO stakeholder processes"); *New Eng. Power Pool*, 105 FERC ¶ 61,300, at P 34 (2003) (Commission approving transmission cost allocation proposal based upon the extensive and thorough stakeholder process); *Policy Statement Regarding Regional Transmission Groups*, 1991-1996 FERC Stats. & Regs., Regs. Preambles ¶ 30,976, at 30,872 (1993) ("RTG Policy Statement") (the Commission will afford an appropriate degree of deference to the stakeholder approval process). The Commission's deference to RTO stakeholder processes has been upheld by the courts. *See Pub. Serv. Comm'n of Wis. v. FERC*, 545 F.3d 1058, 1062-63 (D.C. Cir. 2008) (noting how the Commission often gives weight to a proposal that is the position of the majority of a stakeholder group of the RTO) (*quoting Am. Elec. Power Serv. Corp. v. Midwest Indep. Transmission Sys. Operator, Inc.*, 122 FERC ¶ 61,083, at P 172 (2008)).

⁷ *See* SPP Tariff at Sections 15.7 and 28.5 (requiring Point-To-Point and Network Customers, respectively, to replace losses in accordance with Attachment M).

⁸ *See id.* at Attachment M, Section IV.B ("Loss responsibility associated with all transactions transmitted through and out of the Transmission System . . . shall be determined in accordance with the provisions of this Attachment M and settled by self-supply or financially pursuant to the provisions for the Optional Annual Purchase of loss energy set out below, for such transactions.").

selected in accordance with the Tariff provisions of SPP's real-time energy imbalance service market ("EIS Market").⁹

For the first calendar year following the implementation of SPP's EIS Market, American Electric Power ("AEP") served as the DBA for purposes of accounting for self-provided losses relating to transactions through the SPP region.¹⁰ Since the end of AEP's initial term as the DBA on December 31, 2007, SPP selects the DBA by calculating the average cost of self-provided losses associated with transactions through and out of the SPP Region, as well as the average EIS Market Locational Imbalance Price ("LIP") for each load Settlement Location, for the previous 12-month period.¹¹ SPP then compares the average cost of self-provided losses to the average LIP of each load Settlement Location and selects the Balancing Authority with the load Settlement Location with the average LIP that is closest to the average cost of self-provided losses.¹² The DBA serves for the applicable calendar year, and SPP delivers to the DBA's associated Settlement Location self-provided loss energy associated with transactions through the SPP Region.¹³

For each year SPP has conducted this analysis, the average LIP for AEP's Settlement Location was the closest to the average cost of self-provided losses. As a result, AEP has been the DBA for every year since the conclusion of its initial term. However, SPP recently conducted its analysis for 2011 and determined that the average LIP for another Balancing Authority was the closest to the average cost of self-provided losses, and selected the other Balancing Authority to serve as the DBA. Subsequently, the identified Balancing Authority expressed its concern to SPP that due to constraints on the Balancing Authority's transmission system, it may be unable to carry out the DBA function and may not be ready by the beginning of the year due to the short notice that it was selected as the DBA. In order to ensure that a Balancing Authority able to carry out the DBA functions is selected, AEP volunteered to serve as the DBA for 2011. However, SPP's currently effective Tariff does not allow any other entity to serve as the DBA other

⁹ See *id.* at Attachment M, Section IV.B.2. In various orders, the Commission approved the Tariff sheets for the EIS Market and ultimately certified SPP's EIS Market for implementation on February 1, 2007. See *Sw. Power Pool, Inc.*, 118 FERC ¶ 61,055 (2007).

¹⁰ See *id.* at Attachment AE, Section 1.3.8(a)(i).

¹¹ See *id.* at Attachment AE, Section 1.3.8(a)(ii).

¹² See *id.* at Attachment AE, Section 1.3.8(a)(ii)(3). The DBA's projected minimum hourly total Reported Load for the next calendar year must be greater than or equal to 500 megawatts. See *id.*

¹³ See *id.*

than the Balancing Authority whose average LIP is closest to the average cost of self-provided losses.

Therefore, SPP has modified its EIS Market Protocols to allow AEP to indefinitely serve as the DBA, and submits in this filing Tariff revisions designed to conform to the modified Market Protocols.¹⁴ Specifically, SPP proposes to revise Section 1.3.8 of Attachment AE of SPP's Tariff to indefinitely designate AEP as the DBA, with an option to terminate on the first day of a calendar month with at least 120 days' notice. In the event AEP elects to terminate its designation as the DBA, SPP will designate another Balancing Authority using the analysis specified above and notify the new DBA within 20 days.

SPP's proposal will benefit the EIS Market by ensuring the presence of a DBA able to account for self-provided losses relating to transactions through SPP's Region. AEP has performed this function since the inception of the EIS Market and is willing to continue to perform this function. Establishing AEP as the DBA, until AEP elects to terminate its role, brings stability as the EIS Market participants know who will be the DBA without SPP each year making the determination. If AEP elects to terminate its designation as the DBA, the revised tariff language sets forth notice requirements for AEP and SPP to provide the newly designated DBA adequate time to prepare to perform the DBA function. Moreover, SPP's filing is consistent with the Commission's expectation that modifications to its EIS Market could be necessary once SPP and its market participants gained experience with the market. In its order conditionally approving SPP's EIS Market proposal, the Commission "recognize[d] that the implementation of organized markets is to some extent an iterative process that requires modifications to [T]ariff provisions after the transmission provider and market

¹⁴ These Market Protocols revisions were also developed and approved through SPP's stakeholder process. However, SPP has not included the Market Protocols revisions in this filing pursuant to the Commission's rule of reason, which provides that "only those [operating procedures] that significantly affect rates [and services]" must be filed pursuant to FPA section 205. *Midwest Indep. Transmission Sys. Operator, Inc.*, 122 FERC ¶ 61,172, at P 490, *order on compliance*, 123 FERC ¶ 61,296, at P 97 (2008) (declining to require the Midwest ISO to include in its tariff Business Practice Manuals that supplement and do not override the tariff); *N.Y. Indep. Sys. Operator, Inc.*, 123 FERC ¶ 61,044, at P 84 (2008) (declining to require the NYISO to include in its tariff all the "particulars" of a certification requirement ensuring that a specific pricing option is limited to certain entities); *Cal. Indep. Sys. Operator Corp.*, 122 FERC ¶ 61,271, at PP 16, 100, 104 (2008) (declining to require CAISO to incorporate into its tariff specific business practices). Nonetheless, pursuant to Commission policy, SPP is filing its revised Tariff provisions to ensure consistency with the Market Protocols.

participants gain actual market experience.”¹⁵ In another order issued shortly after the EIS Market was implemented, the Commission noted that “SPP and its customers need to gain market experience before they can assess whether changes need to be made. Given time for the . . . process to work in SPP’s market, SPP may be able to demonstrate that some refinement to its imbalance market processes is appropriate.”¹⁶ It is therefore reasonable to expect that, with nearly four years of experience with the EIS Market, SPP would seek to improve its EIS Market procedures.

For all these reasons, the Tariff revisions submitted in this filing are just and reasonable, and warrant Commission acceptance.

IV. Effective Date and Request for Waiver

SPP requests that the Commission accept the Tariff revisions proposed in this filing with an effective date of January 1, 2011. Pursuant to section 35.11 of the Commission’s rules and regulations, 18 C.F.R. § 35.11, SPP requests waiver of the Commission’s 60-day notice requirement set forth at 18 C.F.R. § 35.3. Waiver is appropriate because the Tariff revisions submitted in this filing do not establish rates or charges for any jurisdictional services, and the Commission generally grants waiver of the notice requirement for uncontested filings that do not change rates.¹⁷

¹⁵ *Sw. Power Pool, Inc.*, 114 FERC ¶ 61,289, at P 2, *order on reh’g*, 116 FERC ¶ 61,289 (2006).

¹⁶ *Sw. Power Pool, Inc.*, 118 FERC ¶ 61,120, at P 25 (2007).

¹⁷ *See Cent. Hudson Gas & Elec. Corp.*, 60 FERC ¶ 61,106, at 61,338, *reh’g denied*, 61 FERC ¶ 61,089 (1992) (“*Central Hudson*”) (the Commission will generally grant waiver of the 60-day prior notice requirement for uncontested filings that do not change rates); *see also Prior Notice and Filing Requirements Under Part II of the Federal Power Act*, 64 FERC ¶ 61,139, at 61,974, *order on reh’g*, 65 FERC ¶ 61,081 (1993) (interpreting *Central Hudson* to mean “waiver of notice generally will be appropriate when an uncontested filing has no rate impact”).

V. Additional Information

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

1. Documents submitted with this filing:

In addition to this transmittal letter, the following items are included: (a) clean and redline Tariff revisions under the Sixth Revised Volume No. 1; and (b) a list of the parties served, as Exhibit No. 1.

2. Effective Date:

As discussed in this filing, SPP requests that the Commission accept the proposed Tariff revisions with an effective date of January 1, 2011.

3. Service:

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

4. Requisite Agreements:

SPP's Board of Directors approved this filing at its meeting on December 17, 2010.

5. Specifically assignable facilities installed or modified:

There are none.

¹⁸ Because the revisions to the SPP Tariff submitted herein do not involve any change in rates, the use of the abbreviated filing procedures as set forth in 18 C.F.R. § 35.13(a)(2)(iii) is appropriate.

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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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VI. Conclusion

For all of the foregoing reasons, SPP respectfully requests that the Commission accept the Tariff revisions submitted in this filing, with an effective date of January 1, 2011. SPP further requests waiver of any additional Commission regulations that the Commission may deem applicable.

Respectfully submitted,

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Exhibit No. 1

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1.3.8 Self-Provision of Losses for Through and Out Transactions

The Transmission Provider shall identify the Designated Balancing Authority for purposes of accounting for self-provided losses relating to transactions through and out of the SPP Region. The Transmission Provider will permit all potential Designated Balancing Authorities to register a unique loss Settlement Location to be used exclusively for the purpose of receiving losses as the Designated Balancing Authority. The Locational Imbalance Price associated with that unique loss Settlement Location shall be the Locational Imbalance Price for the Designated Balancing Authority's load Settlement Location. Such loss Settlement Locations shall not have any associated metered Resources or Loads and shall not be subject to any of the scheduling requirements specified in Section 6.6 of the Market Protocols.

(a) Through Transactions

- (i) Upon implementation of the EIS Market, American Electric Power ("AEP") shall serve as the Designated Balancing Authority for purposes of accounting for self-provided losses relating to transactions through the SPP Region and AEP shall designate a Settlement Location to which the Transmission Provider shall deliver self-provided loss energy associated with transactions through the SPP Region. After one year and with at least 120 days notice, the Designated Balancing Authority shall have the option to terminate this designation effective on the first day of a calendar month.
- (ii) In the event the Designated Balancing Authority notifies SPP to terminate this designation, a subsequent Designated Balancing Authority will be selected and notified within 20 days by the Transmission Provider utilizing the following procedure:
 - (1) calculate the average cost of self-provided losses associated with transactions through and out of the SPP Region for the previous 12 month period as follows:
$$\text{Average Cost of Self-Provided Losses} = \frac{[\text{sum of previous 12 months Self-Provided Loss Credits}]}{[\text{sum of previous 12 months of Self-Provided Losses}]}$$
, where:

Self-Provided Loss Credits are payments to Market Participants associated with transactions through and out of the SPP Region as calculated in accordance with Section 4B.2 of Attachment M; and Self-Provided Losses are the total of all losses associated with all transactions through and out of the SPP system where such losses are specified on the transaction tag;

- (2) calculate the average Locational Imbalance Price for each load Settlement Location for the previous 12 month period; and
- (3) compare the Average Cost of Self-Provided Losses, as calculated under Section 1.3.8(a)(ii)(1), to the average Locational Imbalance Price of each load Settlement Location, as calculated under Section 1.3.8(a)(ii)(2), and select the Balancing Authority with the load Settlement Location with the average Locational Imbalance Price that is closest to the Average Cost of Self-Provided Losses, provided that such Balancing Authority's projected minimum hourly total Reported Load for the next calendar year is greater than or equal to 500 megawatts. Such selected Balancing Authority shall serve as the Designated Balancing Authority for at least one year and until the Designated Balancing Authority provides its notice of termination pursuant to Section 1.3.8(a)(i) and the Transmission Provider shall deliver self-provided loss energy associated with transactions through the SPP Region to such Designated Balancing Authority's associated Settlement Location.

(b) Out Transactions

The Designated Balancing Authority associated with transactions out of the SPP Region shall be the Balancing Authority associated with the transaction Point of Receipt. The Transmission Provider shall deliver self-provided loss energy associated with transactions out of the SPP Region to such Designated Balancing Authority's Settlement Location associated with the transaction Point of Receipt.

1.3.8 Self-Provision of Losses for Through and Out Transactions

The Transmission Provider shall identify the Designated Balancing Authority for purposes of accounting for self-provided losses relating to transactions through and out of the SPP Regions. The Transmission Provider will permit all potential Designated Balancing Authorities to register a unique loss Settlement Location to be used exclusively for the purpose of receiving losses as the Designated Balancing Authority. The Locational Imbalance Price associated with that unique loss Settlement Location shall be the Locational Imbalance Price for the Designated Balancing Authority's load Settlement Location. Such loss Settlement Locations shall not have any associated metered Resources or Loads and shall not be subject to any of the scheduling requirements specified in Section 6.6 of the Market Protocols.

(a) Through Transactions

- (i) ~~For the first calendar year following the EIS Market Effective Date, Upon implementation of the EIS Market,~~ American Electric Power ("AEP") shall serve as the Designated Balancing Authority for purposes of accounting for self-provided losses relating to transactions through the SPP Region and AEP shall designate a Settlement Location to which the Transmission Provider shall deliver self-provided loss energy associated with transactions through the SPP Region. ~~After one year and with at least 120 days notice, the Designated Balancing Authority shall have the option to terminate this designation effective on the first day of a calendar month.~~
- (ii) ~~In the event the Designated Balancing Authority notifies SPP to terminate this designation, a s~~Subsequent Designated Balancing ~~Authorities~~ Authority will be selected ~~and notified within 20 days on an annual basis~~ by the Transmission Provider utilizing the following procedure. ~~By the end of the month following the EIS Market Effective Date month for each subsequent calendar year following the EIS Market Effective Date, the Transmission Provider shall:~~
 - (1) calculate the average cost of self-provided losses associated with transactions through and out of the SPP Region for the previous 12 month period as follows:

Average Cost of Self-Provided Losses = [sum of previous 12 months Self-Provided Loss Credits] / [sum of previous 12 months of Self-Provided Losses], where:

Self-Provided Loss Credits are payments to Market Participants associated with transactions through and out of the SPP Region as calculated in accordance with Section 4B.2 of Attachment M; and Self-Provided Losses are the total of all losses associated with all transactions through and out of the SPP system where such losses are specified on the transaction tag;

- (2) calculate the average Locational Imbalance Price for each load Settlement Location for the previous 12 month period; and
- (3) compare the Average Cost of Self-Provided Losses, as calculated under Section 1.3.8(a)(ii)(1), to the average Locational Imbalance Price of each load Settlement Location, as calculated under Section 1.3.8(a)(ii)(2), and select the Balancing Authority with the load Settlement Location with the average Locational Imbalance Price that is closest to the Average Cost of Self-Provided Losses, provided that such Balancing Authority's projected minimum hourly total Reported Load for the next calendar year is greater than or equal to 500 megawatts. Such selected Balancing Authority shall serve as the Designated Balancing Authority for at least one year and until the Designated Balancing Authority provides its notice of termination pursuant to Section 1.3.8(a)(i) ~~the applicable calendar year~~ and the Transmission Provider shall deliver self-provided loss energy associated with transactions through the SPP Region to such Designated Balancing Authority's associated Settlement Location.

(b) Out Transactions

The Designated Balancing Authority associated with transactions out of the SPP Region shall be the Balancing Authority associated with the transaction Point of Receipt. The Transmission Provider shall deliver self-provided loss energy

associated with transactions out of the SPP Region to such Designated Balancing Authority's Settlement Location associated with the transaction Point of Receipt.