

July 19, 2012

Penny S. Murrell, Director
Division of Electric Power
Regulation – Central
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC

Re: Southwest Power Pool, Inc.
Docket No. ER12-1586-000

Dear Ms. Murrell,

This letter responds to your June 19, 2012 request for additional information concerning the Joint Operating Agreement between Southwest Power Pool, Inc. (“SPP”) and Western Area Power Administration (“Western”) (the “SPP-Western JOA”). SPP’s answers to those questions, which were coordinated with Western, are provided below. Please let us know if you have any further questions.

As a preliminary matter, it appears that much of the concern with respect to Sections 5.4, 5.5, and 5.6 of the SPP-Western JOA stems from confusion between transmission service that is within the capability of the transmission provider’s system and that causes loop flows on other systems, on the one hand; and transmission service that exceeds the capability of the transmission provider’s system, on the other hand. The SPP-Western JOA provides that SPP and Western will not provide transmission service in excess of the Contract Path capacity of their transmission systems and contractual arrangements with others that provide that Party with additional Contract Path capacity. Energy deliveries using transmission service that does not exceed SPP’s or Western’s owned and acquired Contract Path capacity may cause loop flows on the other Party’s system and other third

party systems. Consistent with standard practice in the industry and FERC policy, the SPP-Western JOA does not prohibit such loop flows or require compensation for them. However, if SPP or Western determines that a request for new transmission exceeds its Contract Path capacity, it will require either that additional transmission facilities be constructed or that transmission service be obtained from the transmission provider on whose system the energy will be transmitted. These provisions simply confirm that SPP and Western will conform to standard industry practice in providing transmission service. They do not impose any new obligations or restrictions on SPP, Western or any third party that would not exist in the absence of the SPP-Western JOA. These issues are explained in more detail in the responses to the Commission Staff's questions, below.

Further, in drafting the responses to Staff's questions, SPP and Western have realized that part of the reason for the controversy over Section 5.5 of the SPP-Western JOA could be that certain provisions are being interpreted more broadly than the Parties had intended. Section 5.5 is titled "Exchanges of Energy Within a Party Causing Flows on the Other Party." The entirety of Section 5.5 therefore is intended to address only transactions within SPP that cause flows on Western's facilities and transactions within Western that cause flows on SPP's facilities. Section 5.5 was not intended to and does not apply to transactions on the systems of any third parties, including the Midwest Independent Transmission System Operator, Inc. ("MISO"). Sections 5.5.1, 5.5.1.1 and 5.5.1.2 make that clear by referencing Transmission Owners within a Party's region. However, as originally drafted Section 5.5.2 did not explicitly apply only to transmission owners located within the regions of SPP and Western. SPP hereby clarifies that it was the intent of SPP and Western to limit the scope of all of Section 5.5, including Section 5.5.2, to Transmission Owners within the systems of SPP and Western. SPP and Western have concluded that it is necessary to modify Section 5.5.2 to make that intention more explicit, and therefore SPP and Western hereby agree to modify the first sentence of Section 5.5.2 as shown in Appendix A in a compliance filing in response to a Commission order.

SPP and Western have also realized that another reason for the controversy over Sections 5.4 - 5.6 of the SPP-Western JOA is that the language that was included to allow for other "contractual transmission agreements" may have been interpreted to prohibit the use of the MISO-SPP JOA. That was not the intention of either SPP or Western. To the contrary, both Parties intended that if either Party has other contractual transmission agreements that provide additional Contract Path capacity, that Party may utilize it to support its energy deliveries. Therefore, SPP and Western have concluded that it is also necessary to modify Sections 5.4 - 5.6 as shown in Appendix A, and agree to make such an amendment in a compliance filing in response to a Commission order.

Finally, SPP and Western agree to modify Section 5.6.2 in a compliance filing, as shown in Appendix A, to clarify that energy deliveries in excess of a Party's Contract Path capacity must be arranged using transmission service on other transmission systems.

The answers to Staff's questions are based on SPP's and Western's proposed modifications of the SPP-Western JOA that are discussed above.

1. Sections 5.5 and 5.6 of the SPP-Western JOA contain "excess use" provisions, under which deliveries in excess of contract path capacity or contractual transmission agreements will require reservations and/or compensation under SPP and Western's respective OATTs. Provide technical details of how such "excess use" deliveries on (a) SPP's system, (b) the Western-administered Integrated System, and (c) Third Party transmission systems will be determined under the framework set forth by the SPP-Western JOA.

Section 5.5.2 provides that energy deliveries within the system of a Transmission Owner in SPP or Western or between two Transmission Owners within SPP or Western that exceed the applicable Contract Path capacity must be implemented using transmission service that is obtained from one or more other Transmission Service Providers that has sufficient Contract Path capacity to provide the service. This is consistent with the long-standing principle that a transmission provider cannot provide transmission service in excess of its Contract Path capacity. Similarly, Section 5.6.1 provides that each of SPP and Western will not provide transmission service to deliver energy to a Third Party in excess of its Contract Path capacity; and Section 5.6.2 provides that energy deliveries in excess of that Contract Path capacity must be obtained from transmission providers who have sufficient Contract Path capacity to facilitate the energy delivery. Following is an explanation of the way in which "excess use" is determined.

- (a) Transmission service on SPP's system: If there are areas on SPP's system where it has been determined from studies that its Contract Path capacity is potentially less than the desired energy transactions between those areas, SPP will establish the necessary flowgate(s) and/or zonal dispatch boundaries that will properly reflect those Contract Path limitations. If a transmission customer of SPP wishes to obtain transmission service in excess of SPP's Contract Path capacity, SPP will inform the customer that it cannot provide the service until required transmission facilities are built and that transmission service that exceeds SPP's Contract Path capacity will have to be obtained from a neighboring transmission provider that has sufficient Contract Path capacity to accommodate the desired transaction in the interim. SPP will measure and control its flows (market flows) and interchange transactions that impact the applicable flowgate so that the Contract Path capacity limitation is not exceeded.

- (b) Transmission service on the IS: If there are areas on the IS where Western has determined from studies that its Contract Path capacity is potentially less than the desired energy transactions between those areas, Western will establish the necessary flowgate(s) and/or zonal dispatch boundaries that will properly reflect those Contract Path limitations in the same way as SPP would do, as explained in paragraph 1(a) above. If a transmission customer of Western wishes to obtain transmission service in excess of Western's Contract Path capacity, Western will inform the customer that it cannot provide the service until required transmission facilities are built and that transmission service that exceeds Western's Contract Path capacity will have to be obtained from a neighboring transmission provider that has sufficient contract path capacity to facilitate the desired transaction in the interim. Western will measure and control its flows and interchange transactions that impact the applicable flowgate to ensure it does not provide transmission service in excess of its Contract Path capacity.
- (c) Transmission service on Third Parties' systems: The "excess use" provisions in Sections 5.5.2 and 5.6.2 of the SPP-Western JOA apply only to SPP and Western and do not apply to Third Parties. Therefore, these "excess use" provisions do not apply to the provision of transmission service or energy deliveries on Third Party systems. No determination of "excess use" on Third Party systems will be performed under these sections of the SPP-Western JOA. To the extent that either SPP or Western have Contract Path capacity rights on a Third Party's system that they are utilizing to support their energy transactions under Section 5.5 or Section 5.6 of the SPP-Western JOA, SPP and Western will be required to demonstrate the amount of capacity obtained under those separate contractual transmission agreements in a similar manner to the demonstration of the Contract Path capacity held in its own facilities. For example, SPP will be able to grant transmission service that would require the use of MISO's transmission capacity, subject to its right to do so under the MISO-SPP JOA.

2. Section 5.5.2 of the SPP-Western JOA provides that SPP and Western may impose charges under their OATTs for certain energy deliveries considered "excess use" deliveries caused by transactions on another transmission owner's system. State whether SPP or Western has any study(ies) that demonstrates how these energy deliveries jeopardize the reliability of the SPP or Western system or diminish

SPP's or Western's ability to operate its system in the most economical manner. If so, provide all such studies. In any studies you provide, identify specific flowgates and the estimated cost of loop flow, if determined, on the SPP or Western system at each flowgate.

As clarified above, Section 5.5.2 of the SPP-Western JOA was intended to apply to transmission service deliveries within the systems of SPP and Western. Section 5.5.2 does not apply to transactions on Third Party systems and, as such, charges will not be imposed on Third Parties under the provisions of the SPP-Western JOA.

Due to the fact that Sections 5.4 through 5.6 of the SPP-Western JOA do not provide for compensation for loop flows, SPP and Western have not performed any studies that demonstrate adverse impacts on reliability resulting from loop flows on one of their systems that are caused by transmission service within the Contract Path capacity of the other Party. There is no need to perform such studies because Section 5.5.2 of the SPP-Western JOA does not provide that the Parties can charge for loop flows on their system that result from transmission service within a Party's Contract Path capacity. However, Western and SPP will perform studies as necessary to determine whether they have sufficient Contract Path capacity to provide requested transmission service, and they will only grant or schedule the service that they have the capability to provide. Neither SPP nor Western has identified any situation in which either Party has attempted to provide transmission service in excess of its Contract Path capacity. Therefore, Section 5.5 reflects the current practices of the Parties.

In evaluating Section 5.5, it is important to distinguish between loop flows caused by transmission service within the Contract Path capacity of a Party (SPP or Western) and transmission service that exceeds the Party's Contract Path capacity. Section 5.5.1 provides that transmission service that is within a Party's Contract Path capacity is permissible without any additional transmission service reservations regardless of whether the transmission service causes loop flows on the other Party's system. Section 5.5.2 also does not place any restrictions on SPP's or Western's provision of transmission service within that Party's Contract Path capacity. However, Section 5.5.2 provides that neither SPP nor Western can provide transmission service that exceeds its Contract Path capacity; and that if a customer seeks transmission service that exceeds a Party's Contract Path capacity, that service must be obtained from another transmission provider that has the capability to provide that service.

The requirement that the Parties not provide transmission service in excess of their system capacity is consistent with the principles on which contract path capacity is calculated and reflects standard industry practice of not granting transmission service that the transmission provider cannot actually provide. This is consistent with Section 18.4 of the pro forma OATT, which provides for a transmission provider to make a determination of Available Transmission Capability ("ATC") in response to a request for transmission service. Thus, Section 5.5.2 of the SPP-Western JOA and the pro forma OATT impose

similar requirements in that they do not permit a transmission provider to grant transmission service that it does not have the capability to provide.

3. Under sections 5.5.1 and 5.5.1.1 of the SPP-Western JOA, the amount of energy that can be delivered within a Transmission Owner's¹ system that causes energy flows on the other Party's system may not exceed the sum of the capacity of the transmission facilities owned by the Transmission Owner. However, section 5.2 of the Joint Operating Agreement between the Midwest Independent Transmission System Operator, Inc. (MISO) and SPP (MISO-SPP JOA) provides that, if MISO and SPP have contract paths with the same Third Party, the combined contract path capacity will be made available for use by both MISO and SPP. State whether sections 5.5.1 and 5.5.1.1 of the SPP-Western JOA will change the capacity shared between MISO and SPP under section 5.2 of the MISO-SPP JOA. If so, describe the change. Provide examples to illustrate your answer.

Neither Section 5.5.1 nor Section 5.5.1.1 nor any other provision of the SPP-Western JOA affects the sharing of contract path capacity by MISO and SPP under section 5.2 of the MISO-SPP JOA. To the extent that SPP can utilize contract path capacity on the MISO system under its contractual transmission agreements with MISO and demonstrate that it has sufficient Contract Path capacity, including MISO's shared capacity if applicable, to meet its capacity requirements for its energy deliveries, then it would not need to reserve transmission service on Western's system or any other transmission provider's system. Sections 5.5.1 and 5.5.1.1 were not intended to limit the ability of either Party to the SPP-Western JOA to make other contractual transmission agreements to obtain from other entities the necessary Contract Path capacity that it requires to meet its own transmission service obligations. SPP and Western propose modifications to Sections 5.5.1.1 and 5.5.1.2 to clarify their intent, as shown in Appendix A. They also propose to modify Section 5.4.1 to be consistent with these sections. Since Sections 5.5.1.1 and 5.5.1.2 do not apply to transmission involving Third Parties, including MISO's and SPP's rights under the MISO-SPP JOA, it is not necessary to provide any examples.

4. Section 5.6.1 of the SPP-Western JOA limits energy exchange between SPP or Western and a Third Party² to the sum of capacity of all direct interconnections between SPP or Western and the Third Party and the contractual transmission agreements between SPP or Western and the Third Party. However, section 5.2 of the MISO-SPP JOA provides that, if MISO and SPP have contract paths with the same Third Party, the combined contract path capacity will be made available for use by both MISO and SPP. State whether section 5.6.1 will affect the capacity

¹ Transmission Owner shall mean the entity that owns and maintains transmission facilities (SPP-Western JOA at 2.2.46).

² A Third Party refers to any entity other than a Party to the SPP-Western JOA (SPP-Western JOA at 2.2.41)

shared between MISO and SPP under section 5.2 of the MISO-SPP JOA. If so, describe the change. Provide examples to illustrate your answer.

Section 5.6 of the SPP-Western JOA also does not affect the sharing of contract path capacity between MISO and SPP under Section 5.2 of the MISO-SPP JOA. Section 5.6.1 provides that SPP and Western will limit their energy exchanges with a Third Party to the Contract Path capacity with that Third Party. As clarified in Appendix A, Section 5.6.1 provides that the Contract Path capacity is the sum of all direct interconnections with the Third Party and the contractual transmission agreements that provide additional Contract Path capacity to the Third Party. To the extent that SPP can utilize Contract Path capacity sharing on the MISO system to the Third Party under the MISO-SPP JOA, such capacity would be considered part of SPP's Contract Path capacity under the SPP-Western JOA. Therefore, Section 5.6.1 of the SPP-Western JOA does not restrict SPP from engaging in energy exchanges with a Third Party up to the combined contract path capacity of SPP and MISO with that Third Party.

Both SPP and Western intended that, for example, if SPP has 100 MW of Contract Path capacity in their direct interconnections under 5.6.1(1) with a Third Party and SPP can utilize 50 MW of MISO contract path capacity on MISO facilities to the same Third Party (under 5.6.1(2) "other contractual transmission agreements"), then SPP can deliver up to 150 MW of energy to that Third Party without a reservation of service from Western or other Transmission Service Provider. The modifications to Section 5.6.1 shown in Appendix A address any concerns that the original language may have appeared to limit SPP's ability to utilize Section 5.2 of the SPP-MISO JOA, which provides for the sharing of contract path capacity between those parties.

5. Section 5.6.2 of the SPP-Western JOA states that SPP or Western "may exchange energy in excess of its contract path with a Third Party if it obtains the additional requisite Contract Path capacity from the other Party or another entity that is also connected to the Third Party and reserves the appropriate transmission service in accordance with the applicable tariffs." Describe the process by which an entity will acquire the additional requisite contract path capacity and reserve the appropriate transmission service for an excess energy exchange under the applicable tariffs. Include a description of the type of transmission service (e.g., firm or non-firm, point-to-point or network) that will be considered "appropriate." Also include an explanation of how in practice transmission service can be scheduled in excess of contract path capacity and/or contractual transmission agreements.

Section 5.6.2 was simply intended to explicitly state the standard practice that transmission providers and transmission customers follow when a transmission provider does not have sufficient ATC to accommodate a request for transmission service. SPP and Western are proposing in Appendix A a revision to Section 5.6 to remove some of the confusion that that original language appears to have introduced. As modified, Section 5.6.1 provides that if SPP or Western does not have sufficient Contract Path

capacity to exchange the requested amount of energy with a Third Party, it will not grant the requested transmission service or schedule. Section 5.6.2 provides that when that occurs, service of the type and firmness that is required will have to be obtained (subject to availability) from the other Party or from a third party. For instance, if a transmission customer of Western wants to transmit 100 MW of energy to Neighbor A across the Western/Neighbor A interface, but Western has only 40 MW of remaining Contract Path capacity on the Western/Neighbor A interface to accommodate the transaction, Western will either need to increase its Contract Path capacity between itself and Neighbor A to accommodate the request, or the transmission customer will have to obtain 60 MW of transmission service from another transmission provider that has sufficient Contract Path capacity to deliver the remaining 60 MW of energy to Neighbor A. That other transmission provider could be any entity that can complete the alternate delivery path between Western and Neighbor A. Western's transmission customer could request network transmission service or firm or non-firm point-to-point transmission service, as available under Western's tariff or another transmission service provider's tariff, depending on the same considerations that affect every transmission customer's decisions as to what transmission service to request.

6. State whether, since April 30, 2012, the effective date of Western's termination of its Seams Service Agreement with MISO under Module F of the MISO tariff,³ energy generated in MISO has caused loop flows on the Western-administered Integrated System that would be considered "excess use" deliveries under sections 5.5 or 5.6 of the SPP-Western JOA. If so, state whether the loop flow affected the reliability of the Western-administered Integrated System or diminished Western's ability to operate the system in the most economical manner. Also describe how the loop flow was treated, including whether all or part was allowed to flow, and explain how the loop flow was measured. In addition, state whether charges would have been assessed for this loop flow had the SPP-Western JOA been in effect. If charges would have been assessed, describe to whom the charges would have been assessed, and which OATT service rate would have been charged.

The SPP-Western JOA does not apply to any energy generated by MISO or any other Third Party, regardless of whether it causes loop flows on SPP or the IS or whether those loop flows affect reliability or economics on those systems. Section 5.5 applies to energy deliveries within each Party's system, and it therefore does not apply to MISO's transactions. Section 5.6 provides that SPP and Western will each limit its energy exchange with Third Parties to their Contract Path capacity; Section 5.6 does not apply to energy generated by MISO. Therefore, no energy generated in MISO has caused loop flows on the Integrated System that would be considered "excess use" deliveries under Sections 5.5 or 5.6 of the SPP-Western JOA.

³ See March 30, 2012 Letter from Western to MISO, cited in SPP, Western, et al. Petition for Declaratory Order in Docket No. EL12-60-000, at 9.

7. Explain how sections 5.4-5.6 of the SPP-Western JOA will affect:

a. Third Parties, including MISO.

As amended as shown in Appendix A, Sections 5.4 - 5.6 do not apply to transmission service by Third Parties. Section 5.4 applies to exchanges of energy between SPP and Western, and does not apply to transactions between either SPP or Western and any Third Party. Section 5.5 applies to transactions within the systems of SPP and Western, and it also does not apply to transactions between SPP or Western and any Third Party. Section 5.6 applies to SPP's transactions with Third Parties, including MISO, in that it provides that SPP will not exceed its Contract Path capacity with those Third Parties such as MISO, including its contractual rights to MISO's capacity pursuant to Section 5.2 of the MISO-SPP JOA. However, that restriction is exactly the same as the restriction imposed by Section 5.2 of the MISO-SPP JOA since Section 5.2 also limits SPP's transactions to the sum of the contract path capacity of SPP and MISO. Section 5.6 does not affect MISO's energy deliveries to SPP because the SPP-Western JOA does not apply to the provision of transmission service by Third Parties.

Sections 5.4 - 5.6 explicitly state a practice that has been and continues to be in common usage between neighboring Transmission Service Providers and Balancing Authorities to appropriately limit transactions to system capacity and contractual rights. The intent and effect of that practice is to protect third parties from improper usage of their systems. For instance, Section 5.6 of the SPP-Western JOA prohibits SPP from engaging in energy exchanges with, for instance, Entergy that exceed its system capacity and contract rights. That provision is reasonable because otherwise SPP could grant service in excess of its Contract Path capacity and improperly impinge on the transmission capacity of a nearby transmission owner such as Associated Electric Cooperative, Inc. These sections do not reduce or detract from currently-recognized contractual rights established between SPP and a Third Party or between the IS and a Third Party.

b. SPP's analysis of requests for transmission service under the SPP OATT. Include an explanation of whether requests for transmission service that SPP would grant under its existing OATT could or would be denied once the SPP-Western JOA takes effect. Explain whether there are any scenarios under which a customer could be granted transmission service today under the SPP OATT without having to make payments to Western, but if that same customer waited until after the SPP-Western JOA takes effect, the customer would then have to reserve transmission service under the Western OATT for the same service.

The SPP-Western JOA states the current practices of SPP, and it will not result in any difference in the way that SPP analyzes requests for transmission service. When SPP

analyzes requests for transmission service today, it considers both the physical system impacts of the requested service and the availability of Contract Path capacity. SPP will not provide transmission service to a delivery point with which it is not directly connected or provide transmission service in excess of the Contract Path capacity it has with those neighbors that have direct connections to SPP. If SPP does not have sufficient Contract Path capacity to accommodate a requested transaction, it informs the customer and gives the customer the options provided for in its OATT. The customer also has the option of procuring transmission service from another transmission provider that has sufficient contract path capacity to accommodate the request. The implementation of the SPP-Western JOA will not change SPP's current practice.

c. Existing SPP or Western transmission service customers, including whether any existing transmission customers will be responsible for additional transmission service charges.

The SPP-Western JOA will not affect SPP's or Western's existing transmission service customers. SPP's and Western's current practice is to consider the physical system impacts of the requested transmission service and the availability of Contract Path capacity. SPP and Western do not grant transmission service to points with which they are not directly connected or in excess of their Contract Path capacity with interconnected transmission providers. They will follow the same practices after the SPP-Western JOA becomes effective. Therefore, no existing SPP or Western transmission customers will be responsible for any additional transmission service charges as a result of the implementation of the SPP-Western JOA.

Respectfully submitted,

Southwest Power Pool, Inc.

Appendix A

5.4. Direct Exchanges of Energy Between the Parties.

5.4.1. General Terms of Use. Energy may be exchanged between the Parties up to the total amount of Contract Path capacity between the Parties. The total amount of Contract Path capacity between the Parties shall be limited to:

1. The sum of capacity of all direct interconnections between Transmission Owners of the Parties; and~~/or~~
2. ~~Any~~The contractual transmission agreements that provide Contract Path capacity between Transmission Owners of ~~the~~each respective Parties~~y~~.

5.4.2. Compensation for Use. The necessary transmission service required to facilitate such energy exchange shall be compensated in accordance with the Parties' tariffs.

5.5. Exchanges of Energy Within a Party Causing Flows on the Other Party.

5.5.1. General Terms of Use. The amount of energy that can be delivered within a Transmission Owner's system, or exchanged between the systems of two Transmission Owners located within a Party's region, which causes energy flows on the other Party's system that will be permitted without the reservation of transmission service on the other Party, is limited as follows:

5.5.1.1. The total amount of Contract Path capacity within a Transmission Owner's system located within a Party's region is limited to:

1. The sum of capacity of the transmission facilities owned by the Transmission Owner~~; and~~
- ~~1.2.~~2. Any contractual transmission agreements that provide Contract Path capacity within the Transmission Owner's system.

5.5.1.2. The total amount of Contract Path capacity between Transmission Owners within a Party shall be limited to:

1. The sum of capacity of all direct interconnections between the Party's Transmission Owners; and~~/or~~
2. ~~Any~~Contractual transmission agreements that provide Contract Path capacity between the Party's Transmission Owners.

5.5.2. Excess Use. Energy deliveries in excess of the total amount of Contract Path capacity, as limited by Section 5.5.1, within the system of a Transmission Owner's system that is located within a Party's region, or energy exchanges in excess of the total amount of Contract Path capacity between the Transmission Owners within a Party's region who are exchanging energy shall require transmission service reservations from one or more other Transmission Service Providers that have sufficient Contract Path capacity with the Transmission Owner(s) to facilitate the delivery or exchange. Compensation for such service shall be in accordance with the applicable Transmission Service Providers' tariffs.

Appendix A

5.6. Usage of Contract Path Capacity with Third Parties.

5.6.1. General Terms of Use. Each Party agrees to limit its energy exchange with a Third Party to its Contract Path capacity with that Third Party and subject to the appropriate additional transmission service being reserved in accordance with the Party's and Third Party's tariffs. For purposes of this section, the total amount of Contract Path capacity between a Party and Third Parties shall be limited to:

1. The sum of capacity of all direct interconnections between the Party and Third Party; and/or
2. Any cContractual transmission agreements that provide Contract Path capacity between the Party and Third Party.;

5.6.2. Excess Use. Energy deliveries in excess of the total amount of Contract Path capacity, as limited by Section 5.6.1, between a Party and a Third Party shall require transmission service reservations from one or more other Transmission Service Providers that have sufficient Contract Path capacity to the Third Party to facilitate the delivery or exchange. Compensation for such service shall be in accordance with the applicable Transmission Service Providers' tariffs.~~Each Party may exchange energy in excess of its Contract Path capacity with a Third Party if it obtains the additional requisite Contract Path capacity from the other Party or another entity that is also connected to the Third Party and reserves the appropriate transmission service in accordance with the applicable tariffs.~~