

required to revisit through its stakeholder process the treatment of grandfathered agreements, and is encouraged to work with stakeholders on additional design refinements once SPP gains experience operating the Integrated Marketplace.

Despite the many compliance conditions ordered, SPP seeks rehearing and/or clarification of only three aspects of the October 18 Order. Of the three issues for which rehearing/clarification is sought, two involve requests to defer implementation of the Commission's directives. Specifically, SPP seeks a one-year extension to implement compensation for frequency regulation resources, as prescribed by Order No. 755.³ SPP also seeks a one-year deferral for the implementation of any market-to-market ("M2M") mechanism that may be negotiated by SPP and the Midwest Independent Transmission System Operator, Inc. ("MISO"). As explained below, and in the accompanying affidavit of Mr. Bruce Rew, SPP's Vice-President of Operations, implementation of these two initiatives will require significant system and software changes that create unnecessary material risk to achieving the March 1, 2014 target start date for market operations.

Finally, SPP seeks clarification of paragraph 333 of the October 18 Order. There, the Commission directed SPP to revise its Tariff to specify "that entities that are in any of the other SPP footprints but that choose not to participate in the Integrated Marketplace will not be subject to the Integrated Marketplace's rules and practices."⁴ As SPP explains, certain external entities, such as Reserve Sharing Group ("RSG") members, may ultimately make some use of functions and services available in the Integrated

³ *Frequency Regulation Compensation in the Organized Wholesale Power Markets*, Order No. 755, III FERC Stats. & Regs., Regs. Preambles ¶ 31,324 (2011), *reh'g denied*, Order No. 755-A, 138 FERC ¶ 61,123 (2012).

⁴ October 18 Order at P 333 (footnote omitted).

Marketplace. Accordingly, SPP requests that the Commission clarify that nothing in paragraph 333 precludes SPP from proposing, and the Commission from approving, an appropriate mechanism to hold external entities accountable for functions and services that they utilize in the Integrated Marketplace. To the extent that the Commission declines to clarify paragraph 333 as requested, SPP requests rehearing because the Commission's prohibition on permitting SPP to apply certain Integrated Marketplace rules and practices to entities outside of SPP that take service within the Integrated Marketplace is unsupported by substantial evidence and contrary to the Commission's cost causation principle.

II. SPECIFICATION OF ERRORS AND STATEMENT OF ISSUES

In accordance with Order No. 663-A⁵ and Commission Rule 713(c),⁶ SPP provides the following statement of issues and specification of errors:

1. Insofar as the October 18 Order would require implementation of Order No. 755 at the market start-up, the order is arbitrary and capricious and is not the product of reasoned decision making because it would result in the forfeiture of approximately \$100 million in net benefits associated with delay of the Integrated Marketplace. *See, e.g., Fla. Gas Transmission Co. v. FERC*, 604 F.3d 636 (D.C. Cir. 2010); *Am. Gas Ass'n v. FERC*, 593 F.3d 14 (D.C. Cir. 2010); *PPL Wallingford Energy, LLC v. FERC*, 419 F.3d 1194 (D.C. Cir. 2005).
2. Insofar as the October 18 Order conditions approval of the Integrated Marketplace on M2M coordination with MISO, and would require implementation of M2M coordination at the start-up of the Integrated Marketplace, the order is inconsistent with precedent in other markets, would seriously risk delaying realization of market benefits, and is otherwise arbitrary, capricious and not the result of reasoned decision

⁵ *Revision of Rules of Practice and Procedure Regarding Issue Identification*, Order No. 663-A, 2006-2007 FERC Stats. & Regs., Regs. Preambles ¶ 31,211 (2006).

⁶ 18 C.F.R. §§ 385.713(c)(1)-(2).

making. *See, e.g., Greater Boston Television Corp. v. FCC*, 444 F.2d 841 (D.C. Cir. 1970); *see also Fla. Gas Transmission*, 604 F.3d 636; *Am. Gas Ass’n*, 593 F.3d 14; *PPL Wallingford Energy*, 419 F.3d 1194.

3. Insofar as the October 18 Order would preclude SPP from proposing, and the Commission from approving, an appropriate mechanism to hold external entities accountable for functions they perform and services they utilize in the Integrated Marketplace, it is contrary to precedent, contrary to cost causation principles, arbitrary, capricious, and not the product of reasoned decision making. *See, e.g., Motor Vehicle Mfrs. Ass’n of the United States, Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29 (1983); *K N Energy, Inc. v. FERC*, 968 F.2d 1295 (D.C. Cir. 1992); *Fla. Gas Transmission*, 604 F.3d 636; *Am. Gas Ass’n*, 593 F.3d 14; *PPL Wallingford Energy*, 419 F.3d 1194; *Pac. Gas & Elec. Co. v. FERC*, 373 F.3d 1315 (D.C. Cir. 2004).

III. BACKGROUND

On February 29, 2012, as amended on May 15, 2012, SPP filed revisions to its Tariff to transition from its current Energy Imbalance Service (“EIS”) Market to an Integrated Marketplace. As proposed, the significant components of the Integrated Marketplace include Day-Ahead and Real-Time Energy and Operating Reserve Markets with locational marginal pricing, a market-based congestion management program for the allocation of Auction Revenue Rights, a market for the auction of Transmission Congestion Rights, formation of a new SPP Balancing Authority to consolidate and assume the responsibilities of the 16 separate Balancing Authority areas currently operating within the SPP footprint, and a market power monitoring and mitigation plan based on conduct and impact thresholds. SPP requested a March 1, 2014 effective date for the implementation of the Integrated Marketplace.

In the October 18 Order, the Commission commended SPP and its stakeholders on their efforts to develop the Integrated Marketplace, but directed SPP to make further compliance filings and implement certain requirements prior to launching the new

markets. Only three such compliance directives are relevant for purposes of this rehearing request.

First, the October 18 Order directed SPP to submit revised Tariff sheets to comply with the requirements of Order No. 755 no later than June 30, 2013. The Commission indicated that integration of the changes associated with Order No. 755 should be completed by the time of market start-up.

Next, the Commission required SPP to address the management of congested flowgates across its seam with MISO. In this regard, the Commission directed SPP to negotiate an amendment to its current Joint Operating Agreement (“JOA”) with MISO to expand the existing M2M coordination procedures to “Phase 2 market to market mechanisms.” The Commission expressed its expectation that SPP begin negotiations with MISO and file an amended JOA by June 30, 2013, which, in the Commission’s view, “*should* be sufficient time to ensure that all issues are addressed prior to the commencement of SPP’s markets.”⁷

Finally, the Commission directed SPP to revise the Tariff to specify “that entities that are in any of the other SPP footprints but that choose not to participate in the Integrated Marketplace will not be subject to the Integrated Marketplace’s rules and practices.”⁸

⁷ October 18 Order at P 364 (emphasis added) (internal quotations and citation omitted).

⁸ *Id.* at P 333 (footnote omitted).

IV. REQUEST FOR REHEARING

A. The Commission Should Grant Rehearing Authorizing SPP to Implement the Requirements of Order No. 755 After Successful Market Start-Up.

In the October 18 Order, the Commission generally accepted SPP's proposal to include the competitive procurement of regulation-up, regulation-down, spinning reserve, and supplemental reserve as part of the Integrated Marketplace, subject to certain modifications.⁹ However, the Commission found that SPP must revise its Tariff on how it procures and compensates regulation-up and regulation-down to comply with the requirements of Order No. 755. The Commission directed SPP to make the necessary compliance filing no later than June 30, 2013, to ensure that SPP is in compliance with Order No. 755 at the time of market-start-up.¹⁰ SPP is committed to meeting the requirements of Order No. 755, but, as detailed below, few market participants will have capabilities to take advantage of the provisions required in Order No. 755 and more time to implement the required changes is needed.

Significantly, SPP anticipates that the number of market participants that would have the capabilities to qualify for Order No. 755 compensation is minimal.¹¹ Thus, there are no material benefits to be realized by requiring Order No. 755 to be implemented at the time of market start-up. Moreover, nothing in the October 18 Order demonstrates why the changes required by Order No. 755 are essential to, and must be in place for, the

⁹ See October 18 Order at P 221.

¹⁰ *Id.* at P 222.

¹¹ See Affidavit of Bruce A. Rew on Behalf of Southwest Power Pool, Inc. ¶ 6, enclosed with this filing ("Rew Aff.").

start-up of the Integrated Marketplace. In fact, other Regional Transmission Organizations (“RTOs”) and Independent System Operators (“ISOs”) were able to launch their markets without similar enhancements for frequency regulation being in place. Consequently, there is no reasonable connection between the implementation of the Integrated Marketplace and the Commission’s decision to require compliance with Order No. 755 as a pre-condition to market start-up.¹²

That said, SPP is working diligently to develop the necessary Tariff changes required by Order No. 755. The Market Working Group has passed a proposal describing the procedures and protocols to compensate faster-ramping resources that provide frequency regulation services along with necessary market mitigation protocols. In accordance with SPP’s stakeholder process, this proposal next must be considered by the Markets and Operations Policy Committee and ultimately approved by the SPP Board of Directors. Based on the previously-scheduled regular meetings for these groups, SPP anticipates completing the stakeholder process and submitting the required Tariff revisions by the ordered compliance deadline, i.e., June 30, 2013.

¹² See, e.g., *Fla. Gas Transmission*, 604 F.3d at 639 (“Under [the arbitrary and capricious] standard, the Commission ‘must be able to demonstrate that it has made a reasoned decision based upon substantial evidence in the record’”) (quoting *Pac. Gas & Elec. Co. v. FERC*, 373 F.3d 1315, 1319 (D.C. Cir. 2004)); *Am. Gas Ass’n*, 593 F.3d at 19 (indicating that the Commission’s orders must be based on substantial evidence to be upheld under the arbitrary and capricious standard); *PPL Wallingford Energy*, 419 F.3d at 1198 (“To survive review under the ‘arbitrary and capricious’ standard, an agency must ‘examine the relevant data and articulate a satisfactory explanation for its action including a rational connection between the facts found and the choice made.’”) (quoting *Motor Vehicle Mfrs. Ass’n of the United States, Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983)).

The Tariff revisions SPP must make to comply with Order No. 755, however, will require numerous changes to the systems, software, and models currently in production for the Integrated Marketplace. For example, as explained in Mr. Rew’s affidavit attached to this pleading, the Market User Interface (used by Market Participants to submit bids and offers for the Day-Ahead and Real-Time Markets and the Market Database (“MDB”)) will need to be modified to add new fields to accept two-part offers for regulation capacity.¹³ The Market Clearing Engine must also be modified to combine the two-part regulation offers into a single offer.¹⁴ In addition, the Market Operator Interface (“MOI”) will need to be modified to identify the performance of faster-ramping regulation resources for real-time troubleshooting and inquiries.¹⁵ Finally, changes will be necessary to the settlement engine to process the operational data from the frequency regulation resources providing service and to calculate the additional charges.¹⁶

SPP has determined that the work to develop and implement these software and system design changes will require the commitment of significant resources and time. The problem, as Mr. Rew describes, is that these changes cannot be made “on the fly.”¹⁷ SPP’s staff, consultants, and vendors are already fully deployed to implement the Integrated Marketplace by the March 1, 2014 go-live date, and it is not feasible to implement the Order No. 755 system changes without substantially disrupting these

¹³ See Rew Aff. ¶ 8.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ See *id.* ¶ 12.

ongoing system production efforts. SPP has estimated that the time needed to design and develop the necessary software changes, to perform unit testing of those changes, provide the necessary documentation, and complete the configuration necessary to integrate Order No. 755 changes into the market design could total over 1200 hours.¹⁸ This analysis does not account for the multiple revisions and updates to the software vendor's orders and the conforming changes to the design specifications that are common to software and system design revisions of this scale and complexity. Accordingly, SPP's estimate is a conservative one, and the actual time needed to comply with the requirements of Order No. 755 may be significantly greater.

SPP's proper current focus is to get the Integrated Marketplace up and running so that the significant market benefits are realized as soon as possible. In SPP's view, this should take precedence over implementing the requirements of Order No. 755, which likely will have little or no initial market participant usage. Based on the system impacts discussed above, SPP has determined that requiring it to implement Order No. 755 at market start-up could add approximately twelve months to the go-live date for the market.¹⁹ Such a twelve-month delay would effectively wipe out \$100 million in estimated first year net benefits of the Integrated Marketplace.²⁰

SPP expects to submit the Tariff revisions required by Order No. 755 by the compliance deadline, but SPP needs more time to implement Order No. 755's mechanism into its market system design. Thus, SPP requests the Commission grant rehearing for

¹⁸ See *id.* ¶ 10.

¹⁹ See *id.* ¶ 14.

²⁰ See *id.* ¶ 3.

the purpose of extending the deadline by which SPP must implement the requirements of Order No. 755 to one year after its market launch.

B. The Commission Should Clarify, or Grant Rehearing of, the M2M Compliance Condition to Remove any Requirement that Expanded M2M Coordination Be Implemented by Market Start-Up.

In the October 18 Order, the Commission addressed the issue of flowgate coordination in the Integrated Marketplace and directed “SPP . . . to begin negotiations with MISO on developing a market-to-market coordination process for managing congestion across the seam of MISO and SPP.”²¹ The Commission indicated that new M2M procedures could be memorialized in a “Phase 2” JOA that would amend and expand the coordination procedures provided under the current JOA.²² The Commission required the amended JOA to be filed by June 30, 2013, stating that filing by such date “should be sufficient time to ensure that all issues are addressed prior to the commencement of SPP’s markets.”²³

²¹ October 18 Order at P 364.

²² The reference to a “Phase 2” JOA is somewhat confusing, inasmuch as SPP and MISO have operated adjacent markets, and managed seams issues, since the start-up of SPP’s EIS market in 2007. Under the current SPP-MISO JOA, Phase 2 refers to the non-M2M environment that existed prior to the launch of the EIS. However, as discussed *infra*, when the parties examined the need for modification of the JOA to address seams issues in the post-EIS environment, they concluded that no changes were required. Thus, because coordination and congestion management procedures currently exist between the SPP EIS market and MISO’s market, references herein to “M2M” are intended to refer to more enhanced coordination procedures, as contemplated by the Commission’s use of the term “Phase 2,” such as currently in place in the MISO-PJM JOA, as one example.

²³ October 18 Order at P 364.

1. The Need for M2M Has Not Been Demonstrated.

SPP submits that a *per se* requirement for M2M protocols with MISO is unnecessary and contrary to precedent in other regional markets. At least two RTOs – PJM Interconnection, L.L.C. (“PJM”) and New York Independent System Operator (“NYISO”) – commissioned their Day 2 markets without M2M protocols between them. Indeed, the adjacent markets of PJM and NYISO operated for years without M2M procedures in place.²⁴

Thus, to withhold approval of SPP’s Integrated Marketplace based on the absence of M2M mechanisms would represent an unexplained departure from prior Commission rulings.²⁵ Further, nothing in the Commission’s discussion of M2M demonstrates any compelling justification for imposing such a pre-condition on SPP’s Integrated Marketplace.

To the contrary, SPP has successfully operated a real-time EIS Market since 2007 side-by-side with MISO’s energy market. In fact, the language cited in paragraph 364 of the October 18 Order upon which the Commission’s M2M compliance directive is based is actually from a 2004 Commission order relating to the transition to SPP’s *EIS Market*, which commenced operations in 2007. Yet, since the start of the EIS Market, congestion issues across the SPP-MISO M2M seam have been addressed utilizing tools and

²⁴ See *N.Y. Indep. Sys. Operator, Inc.*, 133 FERC ¶ 61,276 (2010) (“December 2010 Order”) (requiring the NYISO to submit its proposed M2M Coordination Process by the second quarter of 2011), *order on reh’g*, 136 FERC ¶ 61,011 (2011) (“July 2011 Order”) (extending NYISO’s compliance deadline to the end of the fourth quarter 2011).

²⁵ See *Greater Boston Television*, 444 F.2d at 852 (agency actions that depart from prior policy or precedent must be explained and rulings that cross the line from “tolerably terse” to “intolerably mute” will be set aside).

procedures prescribed under the current JOA, without M2M, and with the Commission's assent. In this regard, when SPP filed its EIS Market Tariff, it specifically informed the Commission that both MISO and SPP did not perceive any need for further refinements to the seam between MISO and SPP.²⁶

That was entirely appropriate, in that the JOA only directed SPP and MISO *to consider* M2M enhancements. Section 3.3.3 of the JOA at that time (since deleted, as discussed below), provided that subsequent refinements to the Phase 1 and Phase 2 arrangements “*may consist*” of enhanced M2M provisions. At no time did the Commission *require* enhanced M2M arrangements in the M2M operating environment. Accordingly, the parties considered enhancements when SPP implemented the EIS Market adjacent to MISO's energy market, but decided they were unnecessary.

Then, two years later in 2008, SPP and MISO updated and amended the JOA. At that time, the parties expressly recognized, based on an analysis of the potential flowgates that could be candidates for M2M coordination, that only limited opportunities existed for enhanced congestion management across the seam. On that basis, the parties specifically informed the Commission that they were abandoning pursuit of M2M coordination, even though both parties were then operating “Markets,” as defined in section 2.2.30 of the JOA, and were considered “Market-Based Operating Entities,” as

²⁶ See Submission of Tariff Revisions to Incorporate Energy Imbalance Market and Market Monitoring Provisions of Southwest Power Pool, Inc., Docket No. ER06-451-000 (Jan. 4, 2006) at Prepared Direct Testimony of Carl A. Monroe on Behalf of Southwest Power Pool, Inc. at 11 (noting that SPP and MISO had not identified any required changes to the JOA and Congestion Management Process to facilitate M2M operations).

defined in section 2.2.31 of the JOA, operating in a “market-to-market” environment.²⁷ The Commission again accepted the parties’ representations about the lack of need for enhanced M2M arrangements. Thus, the Commission twice assented to the lack of any need for enhanced M2M arrangements, once at the time the EIS Market was implemented and then again when the JOA was revised after implementation of the EIS Market specifically to eliminate the requirement of any further consideration of enhanced M2M coordination. The upshot is that no M2M obligation exists for the seam between SPP and MISO, as MISO erroneously claimed, and as the Commission erroneously found.²⁸

The fact is that the SPP – MISO seam will not change with the implementation of SPP’s Day 2 markets, which simply adds a Day-Ahead Market, system-wide reserve sharing, and a consolidated SPP Balancing Authority. No operational change is being made to SPP’s real-time market, which has sat next to MISO’s real-time market for years. The two markets’ real-time flowgates, which have been managed successfully under the existing JOA, and the amount and frequency of congestion on those flowgates, will not change as a result of the Integrated Marketplace. The transition from the EIS Market to the Integrated Marketplace will not create a coordination “gap,” and will not place an

²⁷ See Submittal of Midwest Independent Transmission System Operator, Inc. and Southwest Power Pool, Inc., Docket No. ER09-468-000, at 2 (Dec. 19, 2008) (“Based on the results of that analysis indicating limited opportunity and the differences between the two markets *the RTOs have decided not to move forward with implementation of [market-to-market]*”) (emphasis added).

²⁸ Notably, when SPP filed the Integrated Marketplace, MISO did not protest the lack of M2M. Nor did any other party seek an imposition of M2M. The Commission imposed the M2M compliance requirement on the basis of MISO’s subsequent erroneous claims, set forth in a motion for leave to file amended comments just days before the Commission’s order, which SPP had no opportunity to answer. Had SPP been given an opportunity to respond, it would have informed the Commission of the erroneous MISO claims.

incremental congestion management burden on either SPP or MISO. In short, no critical need or operational change has been identified that would justify a *per se* requirement for M2M processes as a condition to approval of the Integrated Marketplace.

For these reasons, the Commission should grant rehearing of the October 18 Order to the extent such order would mandate M2M as a condition to approval of SPP's Integrated Marketplace.

2. SPP Is Willing to Pursue M2M, Provided Reasonable Time is Allowed for Development of Necessary System and Software Modifications.

Nonetheless, SPP appreciates the potential value of re-examining and refining seams management processes through the development of M2M mechanisms. In that regard, SPP plans to initiate negotiations with MISO, as suggested by the October 18 Order, with the goal of finalizing and filing a revised JOA that includes enhanced M2M coordination procedures.

The critical issue with M2M is implementation. Although not entirely clear, the language of paragraph 364 of the October 18 Order could be interpreted as requiring implementation of M2M procedures by the start-up of the Integrated Marketplace.²⁹ Until the M2M negotiations with MISO are complete, neither SPP nor MISO knows with specificity the extent of the system changes necessary to implement any negotiated coordination process. While the JOA between MISO and PJM may be referenced as an acceptable agreement for those parties, it does not automatically translate as a “one size fits all” approach. The seam between SPP and MISO is different than the seam between

²⁹ The ambiguity arises based on the Commission's repeated observations in paragraph 354 that sufficient time “*should be*” available to meet the market start-up deadline. October 18 Order at P 354 (emphasis added).

MISO and PJM. The negotiations between SPP and MISO should be free to run their own course without being tied to an expected outcome. Because it is not practical for SPP to implement M2M processes – the specific parameters of which are currently unknown – by the March 1, 2014 target date for market start, if the Commission retains an outright condition of implementing M2M, SPP requests that the Commission either clarify or grant rehearing of paragraph 364 so as to permit a later effective date for M2M.

As the Commission is aware, implementation of a Day 2 market involves a massive deployment of resources. Numerous known system changes will be required, many with long lead times associated with designing and developing necessary software modifications. Vendor orders are often revised multiple times to conform to updated design specifications. SPP, its consultants, and vendors are already fully dedicated to meeting delivery schedules based on the requirements of the planned market design, which includes the current M2M processes between SPP and MISO. Compliance with the many other conditions of the October 18 Order (i.e., conditions for which SPP is *not* seeking rehearing) will entail additional system and design changes, more demands on SPP's software and system vendors, and even greater scheduling and implementation challenges. Any new M2M processes ultimately agreed upon between MISO and SPP will necessitate additional system design changes.³⁰ And even if SPP and MISO are able to finalize and file an amended JOA by June 30, 2013, additional time must be factored in to account for the issuance of a Commission order on such filing and SPP's submission

³⁰ SPP also notes that a measure of uncertainty, and potential additional delay, exists by virtue of a pending disagreement between SPP and MISO concerning the proper calculation of market flows across the seam under the current M2M arrangements. This matter, which will need to be addressed *before* any amended JOA can be designed for M2M, is currently under JOA dispute resolution.

of vendor orders consistent with the Commission's order. An already compressed schedule leading to the March 1, 2014 start date would become even more compressed.

Mr. Rew's affidavit provides some perspective on the magnitude of the ongoing efforts of SPP staff, consultants, and vendors, *without* regard to M2M compliance. As Mr. Rew explains, assuming implementation of enhanced M2M, these ongoing efforts would need to be re-evaluated for incremental system and software changes, including: changes to SPP's JOATool to calculate the breakdown of Share of Total Flowgate Capacity ("STFC") values of all Reciprocal Entities for all Coordinated Flowgates that are reciprocally coordinated by SPP; development of new Firm Flow Entitlement ("FFE") software; updates to MDB to allow for data storage of FFE and other data required to operate M2M functionality; update to the MOI to allow SPP Operators properly to activate and monitor the M2M process efficiently; update to the Constraint Manager to include M2M functionality; development of a new Web Services interface to read/write data from SPP MDB and exchange data with MISO; development of a new M2M Settlements process in order to settle M2M timeframes between SPP and MISO; and development of a Shadow Settlement calculator to calculate MISO's FFE, Market Flow and Settlement.³¹ In addition, SPP and MISO will need to reach agreement on the details of the M2M procedures that will ultimately be reflected in an amended JOA. For internal staffing purposes alone – i.e., without regard to the incremental demands on SPP's vendors and consultants – SPP estimates the need for four additional senior-level, full-time employees to develop and administer M2M.³²

³¹ See Rew Aff. ¶ 9.

³² See *id.* ¶ 11.

The bottom line, as Mr. Rew confirms, is that requiring M2M implementation as a condition to market start-up would unnecessarily introduce material risk of delay to the start-up of the Integrated Marketplace.³³ Given the existing demands on SPP and its vendors/consultants, and the scheduling pressures already being felt, it is unreasonable to expect that SPP could design, develop, install, test, and validate the numerous system and modeling changes that are assumed to be required to implement M2M by the target in-service date of March 1, 2014.³⁴ Indeed, information recently provided by PJM confirms that an additional one year is likely the minimum time that would be required to put in place all the required system changes associated with M2M implementation.³⁵

And delay is costly. For *every month* that the Integrated Marketplace is not in operation, approximately \$8.3 million of net benefits are withheld from the market.³⁶ By comparison, the potential benefits expected to be realized through implementation of M2M are estimated to be roughly \$10 million *per year*.³⁷ Additionally, another \$2.5 million of “burn rate” costs – i.e., costs associated with the continued deployment of resources dedicated to the Integrated Marketplace effort – are incurred every month

³³ See *id.* ¶ 7.

³⁴ It bears repeating that imposition of expanded M2M protocols was not contemplated for the Integrated Marketplace inasmuch as no party, including MISO, sought M2M in the exhaustive stakeholder meetings regarding market design or in protests to the Integrated Marketplace filing last March.

³⁵ See *id.* ¶ 13.

³⁶ See *id.* ¶ 3.

³⁷ See *id.* ¶ 6.

leading up to market start.³⁸ The math speaks for itself: initiating Integrated Marketplace operations should take precedence over implementation of M2M.

Accordingly, if the Commission imposes any condition, SPP requests that the Commission extend the deadline for implementing M2M to one year after the go-live date of the Integrated Marketplace. Meanwhile, SPP will engage with MISO on the specific M2M procedures that will be finalized and filed as part of a revised JOA.

C. The Commission Should Confirm that the October 18 Order Does Not Preclude SPP from Proposing, and the Commission from Approving, an Appropriate Mechanism to Hold External Entities Accountable for Functions and Services Utilized in the IM.

In the October 18 Order, the Commission conditionally accepted SPP’s Integrated Marketplace proposal subject to SPP revising its Tariff “to specify that entities that are in any of the other SPP footprints but that choose not to participate in the Integrated Marketplace will not be subject to the Integrated Marketplace’s rules and practices.”³⁹ The Commission issued this directive after finding that “parties that choose not to participate . . . must be assured that they will not be subject to the rules and practices of the Integrated Marketplace”⁴⁰ and noting that SPP has five footprints including (among others) the RSG footprint and the EIS Market footprint.⁴¹ While SPP agrees that SPP members that are external to the Integrated Marketplace footprint and that do not take services under the Integrated Marketplace Tariff are not subject to the rules and practices

³⁸ *Id.* ¶ 3.

³⁹ October 18 Order at P 333 (footnote omitted).

⁴⁰ *Id.* at P 333.

⁴¹ *Id.* at P 333 n.498.

of the Integrated Marketplace, SPP requests clarification of the Commission's directive to the extent that it could be read as precluding SPP from proposing Tariff provisions to require parties external to SPP that undertake transactions in the Integrated Marketplace to comply with the Integrated Marketplace rules and practices.

In the Integrated Marketplace filing, SPP did not address the extent to which Integrated Marketplace rules and practices would apply to certain services, such as reserve sharing, that SPP may provide to entities that are external to the SPP region. Instead, SPP indicated that the details regarding its participation in reserve sharing arrangements with external entities would be addressed subsequently through agreements with other Balancing Authorities.⁴² To the extent that SPP voluntarily participates in reserve sharing arrangements with other parties,⁴³ SPP should be free to propose whatever rates, terms, and conditions that it believes are necessary to provide the service, subject to Commission approval. The Commission therefore should clarify that paragraph 333 was not intended to prejudge the terms and conditions that would be applicable to the reserve sharing arrangements that SPP negotiates with external parties within the RSG footprint, and that, by listing the RSG footprint in the list of current SPP

⁴² See Submission of Tariff Revisions to Implement Integrated Marketplace of Southwest Power Pool, Inc., Docket No. ER12-1179-000, Transmittal Letter at 46 (Feb. 29, 2012); Answer of Southwest Power Pool, Inc., Docket No. ER12-1179-000, at 28-30 (May 15, 2012).

⁴³ October 18 Order at P 342 (“Moreover, despite protestors’ claims, SPP is not obligated to provide reserve sharing service to external parties. The Commission has previously allowed other RTOs to terminate reserve sharing service with external parties, finding that ‘there is no NERC standard that requires such a reserve sharing group to exist.’”) (citing *Midwest Indep. Transmission Sys. Operator, Inc.*, 129 FERC ¶ 61,281, at P 26 (2009)).

footprints, the Commission did not intend to prohibit SPP from applying certain Integrated Marketplace rules and practices to RSG members if appropriate.

Additionally, to the extent that entities physically located outside of the SPP Integrated Marketplace footprint choose to participate in reserve sharing arrangements with SPP, such entities may be engaging in transactions (specifically, the procurement of Contingency Reserve) within the Integrated Marketplace, and therefore, applying the Integrated Marketplace rules and practices to such transactions may be appropriate. The Commission should clarify that paragraph 333 was not intended to preclude SPP from applying Integrated Marketplace rules and practices to transactions that are entered into within the Integrated Marketplace by entities that are physically located outside of and that are not otherwise transacting in the Integrated Marketplace. Furthermore, SPP must be afforded a mechanism to recover costs associated with the Integrated Marketplace from external entities that participate in transactions under the Integrated Marketplace Tariff, consistent with the Commission's cost causation principle.⁴⁴ The Commission should clarify that nothing in paragraph 333 is intended to prejudge whether SPP can recover Integrated Marketplace costs from external entities taking service from SPP.

To the extent that the Commission declines to grant the requested clarification, SPP seeks rehearing of the requirement "to revise the Tariff . . . to specify that entities that are in any of the other SPP footprints . . . will not be subject to the Integrated

⁴⁴ See *K N Energy, Inc.*, 968 F.2d at 1300-01 (stating that "rates should be based on the costs of providing service to the utility's customers plus a just and fair return on equity. . . . Properly designed rates should produce revenues from each class of customers *which match, as closely as practicable, the costs to serve each class or individual customer.*") (internal quotations omitted).

Marketplace’s rules and practices.”⁴⁵ Because SPP has not proposed the terms and conditions of other services such as reserve sharing, any preemptive prohibition on allowing the Integrated Marketplace rules and practices to apply to such services is unsupported by evidence in the record and therefore fails to demonstrate reasoned decision-making based on substantial evidence.⁴⁶ Such action also would violate the Commission’s cost causation principle, as it would preclude SPP from recovering costs from the entities causing such costs.⁴⁷

⁴⁵ October 18 Order at P 333 (footnote omitted).

⁴⁶ *Fla. Gas Transmission*, 604 F.3d at 639 (“Under [the arbitrary and capricious] standard, the Commission ‘must be able to demonstrate that it has made a reasoned decision based upon substantial evidence in the record.’”) (quoting *Pac. Gas & Elec. Co. v. FERC*, 373 F.3d 1315, 1319 (D.C. Cir. 2004)); *Am. Gas Ass’n*, 593 F.3d at 19 (“We review FERC’s orders under the arbitrary and capricious standard and uphold FERC’s factual findings if supported by substantial evidence. . . . The Commission must fully articulate the basis for its decision.”) (internal citations and quotations omitted); *PPL Wallingford Energy*, 419 F.3d at 1198 (“To survive review under the ‘arbitrary and capricious’ standard, an agency must ‘examine the relevant data and articulate a satisfactory explanation for its action including a rational connection between the facts found and the choice made.’”) (quoting *Motor Vehicle Mfrs. Ass’n of the United States, Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983)).

⁴⁷ *See K N Energy*, 968 F.2d at 1300-01.

CONCLUSION

For the foregoing reasons, SPP requests that the Commission grant rehearing and/or clarification of its October 18 Order as described above.

Respectfully submitted,

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November 19, 2012

3. In April, 2009, SPP performed a cost-benefit analysis for the Integrated Marketplace. That analysis concluded that the net benefits of the Integrated Marketplace to be approximately \$100 million for the first twelve months. Most of these benefits are obtained through optimized unit commitment and consolidation of sixteen existing Balancing Authority areas. Consequently, every month of delay in the implementation of the Integrated Marketplace will result in a minimum average loss of \$8.3 million of net benefits, not including qualitative benefits lost. In addition, any delay to market start-up has a “burn rate” – i.e., associated with the continued expenditure of staff, consultant, and vendor resources – that adds approximately \$2.5 million per month in overall program costs.

4. Through a rigorous stakeholder process, SPP created a comprehensive program to define, design, build, test, and implement the numerous complex systems that are required for the Integrated Marketplace. A program the size and scope of the Integrated Marketplace requires that all resources adhere to pre-determined project schedules to ensure timely completion of all components. The coordinated work streams associated with these efforts were developed with the goal of delivering the Integrated Marketplace by March 1, 2014. The rigor with which SPP administers the work stream schedule is evident in the milestone reports, published every month, that depict progress and achievements, measured against the Integrated Marketplace implementation date of March 1, 2014.

5. The Integrated Marketplace program necessarily relies on a combination of SPP staff, hired consultants, and SPP vendor resources. All such resources are fully dedicated to project work that was defined and assigned up to two years ago.

Implementing M2M Coordination and Order No. 755 Compliance

6. SPP estimates the potential benefits of M2M coordination to be approximately \$10 million per year – roughly equivalent to a single-month of benefits associated with implementation of the Integrated Marketplace. Estimated benefits associated with Order No. 755 compliance are likely minimal, because, at least initially, SPP anticipates little, if any, Integrated Marketplace participation from flywheels, batteries, or other sources of regulation resources contemplated by Order No. 755.

7. The systems and models that are already in production are the same systems and models that will be required to support M2M coordination and Order No. 755 compliance. Indeed, SPP has incorporated the existing Joint Operating Agreement (“JOA”) market coordination requirements in its development schedule. For this reason, attempting to integrate new or different M2M and Order No. 755 compliance mechanisms now would be extremely disruptive and would effectively require a re-start of many of the Integrated Marketplace work streams currently underway, which would seriously risk a delay to the anticipated market start-up date.

8. Order No. 755 compliance, pursuant to which SPP will propose compensation procedures for reserved regulation capacity and regulation deployment, will involve major system and software modifications. For example, to accommodate the two-part offers for Regulation-Up and Regulation-Down services (capability offer and mileage offer) and the impacts to settlement processes for the Day-Ahead Market, the Real-Time Balancing Market, Reliability Unit Commitment (“RUC”) and Make-Whole Payments (“MWP”), modifications will be required to SPP’s Market User Interface (i.e., the interface Market Participants utilize to submit bids and offers, receive systematic notifications, and generally interface with the Day-

Ahead and Real-Time Markets). These modifications are necessary in order to process the new fields for Mileage Offers. Additionally, software changes will be required to the Market Clearing Engine to reflect the combination of Regulation offers into a single offer. SPP's Market Database ("MDB") will also need to be modified to incorporate the additional offer fields, and the Market Operator Interface ("MOI") will need to be modified to indicate which resources are utilizing Mileage Offers for real-time troubleshooting and inquiries. Finally, SPP's settlement system ("ETSE") will also need to be modified to process operational data (capability cleared and performance), as well as to calculate the additional charge types for Unused/Excess Mileage and Reliability Unit Commitment Make Whole Payments. This will require an additional interface between ETSE and Staging to incorporate the new primary determinants.

9. In addition, to implement a M2M mechanism with MISO, SPP would first need to re-design, re-build, and re-test its market systems. The JOATool software would have to be changed in order to calculate the Share of Total Flowgate Capacity ("STFC") of all reciprocal entities for all coordinated flowgates that are reciprocal coordinated flowgates for SPP to provide values in order to calculate the Firm Flow Entitlement ("FFE"). Other required system changes for a M2M mechanism include developing a new FFE calculator; creating a new market flow calculator; updating the MDB to allow for data storage of FFE; updating the MOI so SPP operators can properly activate and monitor the process efficiently; updating the Constraint Manager to include M2M functionality; developing completely new web services to interface with and exchange data with MISO; developing new M2M settlements process; developing a shadow settlement calculator; and making changes and updates to certain SPP architecture.

10. The foregoing modifications are substantial and will require technical and system integration support by SPP resources, consultants, and vendors. The system impacts alone for

implementing Order No. 755 are estimated to entail approximately 1200 hours in additional resource time, without regard to the additional time required for making multiple revisions and updates to work orders and conforming changes to the design specifications commonly associated with software and system design changes of this scale and complexity.

11. While a full impact assessment has not been undertaken for M2M implementation, I am confident that the known system and software changes (discussed above) could not reasonably be completed by March 1, 2014. Among other things, meeting such a deadline would require diverting currently deployed resources to M2M implementation. This, in turn, would create additional disruption and seriously compromise the complex, multi-faceted, efforts presently underway to deliver the Integrated Marketplace by March 1, 2014. In addition, I estimate that four additional senior-level, full-time employees will be required for staffing and implementing M2M. It is important to understand that implementation of M2M is not required to properly implement the allocation of Annual Revenue Rights and Transmission Congestion Rights, or to administer Day-Ahead and Reliability Unit Commitment functionality in the Integrated Marketplace.

12. It is also important to understand that the extensive system changes I describe cannot be implemented “on the fly.” Ongoing system changes would need to be interrupted and new change orders processed. It is far more efficient to allow the ongoing development and production of the Integrated Marketplace systems to proceed to completion. Integration of M2M and Order No. 755 compliance *after* these systems are operational and *after* SPP has gained experience with the Integrated Marketplace will minimize disruption of current work streams and avoid the problems and inevitable delays that would arise if SPP were to attempt to integrate these changes now.

13. SPP has discussed with PJM Interconnection, L.L.C. (“PJM”) its experience in implementing an operating system for M2M. PJM informed SPP that the required system changes took approximately nine months to complete, but that if PJM were hypothetically to implement M2M in today’s CIPS environment, implementation would take approximately one year. PJM explained that in both the actual and hypothetical cases, required changes would be made to an already running operating system. In contrast, the systems required for Integrated Marketplace implementation are currently in development with resources fully dedicated to that effort. Therefore, it is reasonable to assume that the estimates provided by PJM likely understate the time commitment required for M2M implementation in SPP.

14. SPP is willing to pursue M2M coordination with MISO, with the goal of negotiating and filing necessary revisions to the currently effective JOA, and to pursue the required system and software modifications. SPP is also committed to developing the necessary system and software changes required for Order No. 755 compliance. However, it is unrealistic to expect that these system and software changes could be designed, tested, and implemented in a timeframe compatible with the planned March 1, 2014 market start-date. Based on my assessment of incremental manpower and resource demands, an additional year is needed after the Integrated Marketplace go-live date (currently projected to be March 1, 2014), so that these complex systems can be modified to accommodate M2M and Order No. 755-compliant mechanisms.

STATE OF ARKANSAS

COUNTY OF PULASKI

Bruce Rew being first duly sworn, deposes and says that he is the same Bruce Rew whose affidavit is attached hereto; that such affidavit was prepared by him or under his supervision; that he is familiar with the contents thereof; that the facts set forth herein are true and correct to the best of his knowledge, information, and belief, and that he does adopt the same as his sworn affidavit in this proceeding.

Bruce A. Rew
Bruce A. Rew

SUBSCRIBED AND SWORN to before me, a Notary Public, on this 14th day of
November, 2012.

Laurie Ann Reynolds
Notary Public

My Commission Expires

June 20, 2014



CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 19th day of November, 2012.

/s/ Matthew J. Binette
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