

March 2, 2015

The 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. ER15-____
Submission of Tariff Revisions Regarding a Transitional Process for
Allocation of Auction Revenue Rights

Dear Secretary Bose:

Pursuant to section 205 of the Federal Power Act¹ and Part 35 of the Regulations of the Federal Energy Regulatory Commission ("Commission" or "FERC"),² Southwest Power Pool, Inc. ("SPP"), as authorized by its independent Board of Directors, submits revisions to its Open Access Transmission Tariff³ necessary to implement a transitional process for allocation of Auction Revenue Rights ("ARRs") to Transmission Owners in the process of joining SPP as Market Participants. SPP requests that the Commission accept the proposed revisions for filing and allow the revisions to become effective May 1, 2015.

I. INTRODUCTION

SPP has recognized an issue that could affect Transmission Owners joining SPP as new Market Participants: the timing requirements under which such Transmission Owners' transmission facilities are incorporated under the SPP Tariff could prevent those entities from participating in the annual ARR allocation. For Transmission Owners in that situation, no mechanism or procedure currently exists that would allow them an opportunity to participate in an ARR allocation prior to the Monthly ARR Allocation. As discussed in more detail *infra*, the revisions proposed in this filing will permit a Transmission Owner in this situation to request a Transitional ARR Allocation.

¹ 16 U.S.C. § 824d.

² 18 C.F.R. § 35.13.

³ Southwest Power Pool, Inc., Open Access Transmission Tariff, Sixth Revised Volume No. 1 ("Tariff").

II. BACKGROUND

A. SPP

SPP is a Commission-approved Regional Transmission Organization ("RTO").⁴ It is an Arkansas non-profit corporation with its principal place of business in Little Rock, Arkansas. SPP currently has 83 members, including 14 investor-owned utilities, 11 municipal systems, 14 generation and transmission cooperatives, 8 state agencies, 12 independent power producers, 12 power marketers, 11 independent transmission companies, and 1 federal agency. As an RTO, SPP (1) administers, across the facilities of SPP's Transmission Owners, open access transmission service over approximately 48,930 miles of transmission lines covering portions of Arkansas, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, and Texas and (2) administers the Integrated Marketplace,⁵ a centralized Day-Ahead ("DA")⁶ and Real-Time Energy and Operating Reserve Market with locational-marginal pricing and market-based congestion management.

B. The SPP Integrated Marketplace and the Role of ARRs

On February 29, 2012,⁷ as amended on May 15, 2012,⁸ SPP submitted to the Commission proposed revisions to its Tariff to transition from its Real-Time Energy Imbalance Service ("EIS") Market to the Integrated Marketplace in March 2014. The Integrated Marketplace design approved by the Commission, which went live according to schedule on March 1, 2014, includes DA and Real-Time Energy and Operating Reserve Markets. The Integrated Marketplace also includes a Transmission Congestion Rights ("TCR") Market, which is designed to help Market Participants hedge against congestion charges in the DA Market. Because the Tariff revisions

⁴ *Sw. Power Pool, Inc.*, 109 FERC ¶ 61,009 (2004), *order on reh'g*, 110 FERC ¶ 61,137 (2005).

⁵ *Sw. Power Pool, Inc.*, 146 FERC ¶ 61,130 (2014) (order approving the start-up and operation of the Integrated Marketplace effective March 1, 2014).

⁶ All capitalized terms not otherwise defined in this filing shall have the definitions assigned by the Tariff.

⁷ Submission of Tariff Revisions to Implement SPP Integrated Marketplace of Southwest Power Pool, Inc., Docket No. ER12-1179-000 (Feb. 29, 2012) ("Integrated Marketplace Filing").

⁸ Amendatory Filing of Tariff Revisions to Implement SPP Integrated Marketplace of Southwest Power Pool, Inc., Docket No. ER12-1179-001 (May 15, 2012).

submitted herewith relate to a component of SPP's TCR Market design, the following discussion will review briefly the TCR Market and the role ARR's play therein.⁹

In the Integrated Marketplace, Energy transactions are subject to congestion charges that are calculated using a Marginal Congestion Component ("MCC") of Locational Marginal Prices ("LMP") (which is equal to zero if there is no congestion).¹⁰ When congestion occurs, SPP collects congestion revenues that are thereafter allocated in the settlements process according to TCR holdings. TCRs are monthly and seasonal financial instruments with values determined as part of the DA Market settlement based on the MW amount of the TCR and the DA Market differential of the MCC of LMP between specified sinks and sources.¹¹ A Market Participant may obtain TCRs at an auction, through secondary sales, or through the self-conversion of ARR's, which are allocated to Eligible Entities¹² in accordance with their firm Transmission Service Reservations.

⁹ Currently, there are eight key steps associated with obtaining and using ARR's and TCR's: (1) the Annual ARR and Long-Term Congestion Rights ("LTCR") Verification Process, (2) the Annual LTCR Allocation Process, (3) the Annual ARR Allocation Process, (4) the Annual TCR Auction Process, (5) the Monthly ARR Allocation Process, (6) the Monthly TCR Auction Process, (7) the ARR Allocation and TCR Auction Settlements, and (8) the TCR Secondary Markets. As indicated by the first step, SPP has proposed LTCRs and as part of its Integrated Marketplace. LTCRs and Incremental LTCRS ("ILTCRs"), would be multi-year instruments and could be directly converted into TCRs prior to the annual ARR allocation for the current allocation year. The Tariff revisions implementing LTCRs and ILTCRs are the subject of the Commission's proceeding at Docket No. ER14-2553, and SPP made a compliance filing in that Docket on January 30, 2015. *See* Compliance Filing of Southwest Power Pool, Inc., Docket No. ER14-2553-002 (Jan. 30, 2015) ("January 30 Filing"). In the interest of brevity, the discussion of congestion hedging in this Transmittal Letter will deal primarily with ARR's and TCR's.

¹⁰ *See* Tariff at Attachment AE, Section 1.1, "Definitions L" and "Definitions M," containing respectively the definitions of LMPs and MCC.

¹¹ *See id.* at Section 1.1, "Definitions T," containing the definition of TCR's.

¹² Eligible Entities include Transmission Customers and Market Participants with firm Transmission Service in the form of Firm Point-To-Point Transmission Service, firm Network Integration Transmission Service ("NITS"), and firm service under Grandfathered Agreements ("GFAs"), into, out of, or within SPP. *See, e.g., id.* at Section 1.1, "Definitions E," containing the definition of Eligible Entity; *see also* Section 7.1.1. Based on Tariff revisions currently under the Commission's consideration in Docket No.

ARRs are annual, monthly, or seasonal instruments obtained during the annual ARR allocation process and/or the monthly ARR allocation process. In order to receive an allocation of ARRs, Eligible Entities are permitted to nominate candidate ARRs along specific transmission paths consistent with their firm service reservations.¹³ Eligible Entities awarded ARRs may either self-convert them into TCRs or hold the ARRs to receive a share of the revenue SPP collects from auction purchasers of TCRs.¹⁴

SPP conducts the annual ARR allocation in a three-round process in April of each year.¹⁵ Entities nominate candidate ARRs on a monthly basis for June, July, August, and September. Entities also nominate candidate ARRs on a seasonal basis for fall (October and November), winter (December through March) and spring (April and May). In order to nominate a candidate ARR, the Eligible Entity's Transmission Service must span the entire month or seasonal period for which the ARR is nominated.¹⁶ The annual ARR allocation process determines the portion of the nominated candidate ARRs that are simultaneously feasible for allocation to each Eligible Entity.

In addition to the annual ARR allocation, SPP conducts a monthly ARR allocation.¹⁷ In the monthly ARR allocation, Eligible Entities may nominate candidate ARRs for (1) remaining ARR capacities from the annual ARR allocation, (2) firm Transmission Service confirmed after the annual TCR auction but prior to the next annual ARR allocation, (3) firm Transmission Service confirmed prior to the annual ARR verification process that includes a partial season, or (4) Transmission Service for which a redispatch obligation has been eliminated.¹⁸ At present, if a Transmission Owner is prevented from participating in the annual ARR allocation because of the schedule for incorporating its transmission facilities under the Tariff,

ER14-2553-002, entities that fund upgrades to SPP's transmission system are eligible to receive ILTCRs.

¹³ *Id.* at Section 7.1.1.

¹⁴ *See, e.g., id.* at Section 1.1, "Definitions A," containing the definition of ARRs. ARRs can result in the holder receiving a portion of the TCR auction revenues or contributing to the TCR auction revenues.

¹⁵ *See id.* at Section 7.2.2.

¹⁶ *See id.* at Section 7.1.1.

¹⁷ *See id.* at Section 7.5.

¹⁸ *See id.*

said Transmission Owner would be limited to any ARRs remaining available in a monthly ARR allocation.

C. Stakeholder Approval

The proposed revisions were analyzed and approved through the SPP stakeholder process, including: (1) meetings of the Market Working Group ("MWG")¹⁹ on November 19 and December 16 of 2014; (2) a meeting of the Regional Tariff Working Group ("RTWG")²⁰ on December 18, 2014; (3) a meeting of the Operations Reliability Working Group ("ORWG")²¹ on December 18, 2014; (4) a meeting of the Market Operations and Policy Committee ("MOPC")²² on January 14, 2015; (5) a meeting of the Regional State Committee ("RSC")²³ on January 26, 2015;

¹⁹ The MWG is responsible for the development and coordination of the changes necessary to support any SPP administered wholesale market(s), including energy, congestion management, and market monitoring, consistent with direction from the SPP Board of Directors.

²⁰ The RTWG is responsible for development, recommendation, overall implementation, and oversight of SPP's Tariff. The RTWG also advises SPP staff on regulatory and implementation issues not specifically covered by the Tariff or issues where there may be conflicts or differing interpretations of the Tariff.

²¹ The ORWG maintains, coordinates and implements Criteria related to the reliable and secure operation of the bulk electric system operated by the members of SPP. The ORWG ensures these operating criteria are consistent with North American Electric Reliability Corporation ("NERC") and Regional Reliability Standards. ORWG coordinates the review, comments on and proposed changes to, and implementation of NERC or Regional standards related to operational reliability. The ORWG provides oversight and direction for the Reliability Coordinator function of SPP and assigned SPP working groups. The ORWG provides policy input to the MOPC and SPP Board of Directors and its committees, if requested.

²² The MOPC consists of a representative officer or employee from each SPP Member and reports to the SPP Board of Directors. Its responsibilities include recommending modifications to the SPP Tariff. *See* Southwest Power Pool, Inc., Bylaws, First Revised Volume No. 4 ("Bylaws") § 6.1.

²³ The RSC provides collective state regulatory agency input on matters of regional importance related to the development and operation of bulk electric transmission. The SPP RSC is comprised of retail regulatory commissioners from agencies in Arkansas, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Texas.

and (6) a meeting of the SPP Members Committee²⁴ and Board of Directors on January 27, 2015. While SPP recognizes that stakeholder approval does not by itself cause a filing to be just and reasonable, SPP requests that the Commission extend appropriate deference to the wishes of SPP's stakeholders, consistent with Commission precedent.²⁵

III. DISCUSSION OF REVISIONS

SPP and its stakeholders have designed a process for Transmission Owners who are joining SPP as Market Participants and are subject to the timing requirements surrounding the incorporation of their transmission facilities under the SPP Tariff. In certain cases, the timing of such incorporation may prevent Transmission Owners from participating in an annual ARR allocation prior to the monthly ARR allocation. The revisions proposed herein would permit Transmission Owners in this situation to request a Transitional ARR Allocation in addition to the annual ARR allocation.

Under the proposed revisions, the term "Transitional ARR Allocation" is defined as "[a]n interim, multi-period, single-round process, outside of the annual ARR process schedule, used by an Eligible Entity when a Transmission Owner brings existing transmission facilities and transmission service under the SPP Tariff."²⁶ The

²⁴ The Members Committee currently consists of up to 24 representatives of the Transmission Owning Member and Transmission Using Member sectors of SPP's Membership. This committee provides input to and assists the SPP Board of Directors with the management and direction of the general business of SPP. *See* Bylaws § 5.1.

²⁵ The Commission has previously recognized that provisions approved through RTO stakeholder processes are due deference. *See Sw. Power Pool, Inc.*, 127 FERC ¶ 61,283, at P 33 (2009) (noting that 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 approval of transmission cost allocation proposal based upon an extensive and thorough stakeholder process); *Policy Statement Regarding Regional Transmission Groups*, 1991-1996 FERC Stats. & Regs., Preambles ¶ 30,976, at 30,872 (1993) (the Commission will afford the 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 the Commission often gives weight to RTO proposals that reflect the position of the majority of the RTO's stakeholders) (quoting *Am.Elec. Power Serv. Corp. v. Midwest Indep. Transmission Sys. Operator, Inc.*, 122 FERC ¶ 61,083, at P 172 (2008)).

²⁶ Proposed Tariff at Attachment AE, Section 1.1, "Definitions T."

Transitional ARR Allocation process is further described in a new Section 7.11 proposed for Attachment AE of the Tariff. SPP will perform any Transitional ARR Allocation consistent with current verification and allocation processes described under the Tariff at Sections 7.1 and 7.2 of Attachment AE.²⁷ However, the proposed Tariff language included in this filing does contain certain distinctive characteristics for the Transitional ARR Allocation, including (1) it will be performed in a single round, and (2) it must include, at a minimum, the winter and spring seasons and align with the other annual ARR periods.²⁸ As proposed, the Transitional ARR Allocation would generally be available only to Transmission Owners that are in the process of bringing their transmission facilities under the Tariff.²⁹ However, other non-transmission-owning entities that have existing firm transmission service across the same transmission facilities will not be excluded from participating if they plan to join SPP along with the Transmission Owner.³⁰

The Transitional ARR Allocation and the associated Tariff revisions proposed herein are just and reasonable. SPP, its Members, and its Market Participants benefit from the addition of new transmission facilities to the SPP transmission system. The new process will allow a more stable transition into the Integrated Marketplace for new Market Participants who are subject to the timing requirements associated with the incorporation of their transmission facilities under the SPP Tariff.

IV. ADDITIONAL INFORMATION

A. Information Provided Per Commission Regulations³¹

1. Documents submitted with this filing:

In addition to this transmittal letter, the following documents are included with this filing:

Clean and Redlined Tariff revisions under the Sixth Revised Volume No. 1.

²⁷ See *id.*, Section 7.11 (citing Attachment AE Sections 7.1 and 7.2).

²⁸ See *id.*, Sections 7.11(1)-(2).

²⁹ See *id.*, Section 7.11.

³⁰ See *id.*

³¹ Because the revisions to the Tariff submitted herein do not involve any changes in rates, the use of the abbreviated filing procedures as set forth in 18 C.F.R. § 35.13(a)(2)(iii) is appropriate.

2. Effective date:

SPP requests that the Commission allow the proposed revisions to the Tariff to become effective May 1, 2015.

3. Service:

SPP has electronically served a copy of this filing on all its Members, Customers and Market Participants. 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 January 27, 2015.

B. Communications

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

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V. CONCLUSION

For all of the foregoing reasons, SPP respectfully requests that the Commission accept the Tariff revisions proposed herein as just and reasonable, effective as discussed above.

The Honorable Kimberly D. Bose

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Respectfully submitted,

/s/ Joseph W. Ghormley

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1.1 Definitions T

Through Interchange Transaction

A Market Participant schedule submitted between two External Interfaces for use in the Day-Ahead Market or Real-Time Balancing Market for moving Energy through the SPP Balancing Authority Area.

Transitional ARR Allocation

An interim, multi-period, single-round process, outside of the annual ARR process schedule, used by an Eligible Entity when a Transmission Owner brings existing transmission facilities and transmission service under the SPP Tariff.

Transmission Congestion Right (“TCR”)

A right that entitles the holder to be compensated or charged for congestion in the Day-Ahead Market between two Settlement Locations.

Transmission Congestion Rights Markets (“TCR Markets”)

The annual Long-Term Congestion Rights allocation process, the annual and monthly Transmission Congestion Rights auctions and the Auction Revenue Rights annual and monthly allocation processes.

Transmission Customer

As defined in Section 1 of the Tariff.

Transmission Provider

As defined in Section 1 of the Tariff.

Transmission Service

As defined in Section 1 of the Tariff.

Transmission System

As defined in Section 1 of the Tariff.

Tariff

The Transmission Provider's Open Access Transmission Tariff.

7.11 Transitional ARR Allocation

A Transmission Owner joining the Integrated Marketplace as a new Market Participant may request the Transmission Provider perform a Transitional ARR Allocation to the extent that the Transmission Owner is incorporating existing transmission facilities into the SPP Transmission System under the Tariff and the timing of such incorporation does not allow participation in the annual ARR allocation process described under Section 7.2 of this Attachment AE. Eligible Entities with firm transmission service on that Transmission Owner's facilities may participate in the allocation. The Transmission Provider shall conduct the Transitional ARR Allocation consistent with the processes described under Section 7.1 and Section 7.2 of this Attachment AE, provided that:

- (1) The Transitional ARR Allocation shall be performed in a single round;
- (2) At a minimum, the Transitional ARR Allocation must include the winter and spring season and align with the other annual ARR periods; and
- (3) All TCRs previously awarded in the annual TCR auction and all remaining ARRs not accounted for in the annual TCR auction (as defined in Section 7.6 of this Attachment AE) for the applicable study period are modeled as fixed injections at the specified sources and fixed withdrawals at the specified sinks. To the extent that these fixed injections and withdrawals are no longer feasible, the Transmission Provider will make the minimum adjustments necessary to the ratings of the applicable transmission facilities in the model in order to allow the model to produce a feasible solution solely for the purpose of assessing transitional ARR feasibility.

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