

May 24, 2016

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. ER12-1179-____
Compliance Filing

Dear Secretary Bose:

Southwest Power Pool, Inc. (“SPP”) submits this filing to address the informational reporting directives contained in the Federal Energy Regulatory Commission’s (“Commission” or “FERC”) April 1, 2014 “Order Conditionally Accepting Compliance Filing,”¹ which conditionally accepted SPP’s revisions to its Open Access Transmission Tariff² designed to adapt methodologies from SPP’s Energy Imbalance Service (“EIS”) Market for use in the Integrated Marketplace.

I. BACKGROUND

A. Order No. 745 and SPP’s EIS Market

Order No. 745,³ issued March 15, 2011, required Regional Transmission Organizations (“RTOs”) to pay demand response resources the locational marginal

¹ *Sw. Power Pool*, 147 FERC ¶ 61,001 (Docket No. ER12-1179-016). This filing is also made pursuant to the Notice of Extension of Time the Commission issued in this docket on November 21, 2014, which tied SPP’s filing deadline to the United States Supreme Court’s actions regarding Order 745 in *EPSA v. FERC*.

² Southwest Power Pool, Inc., Open Access Transmission Tariff, Sixth Revised Volume No. 1 (“Tariff”).

³ *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, III FERC Stats. & Regs., Regs. Preambles ¶ 31,322, *order on reh’g and clarification*, Order No. 745-A, 137 FERC ¶ 61,215 (2011), *reh’g denied*, Order No. 745-B, 138 FERC ¶ 61,148 (2012), *vacated and remanded*, *Elec. Power Supply Corp. v. FERC*, 753 F.3d 216 (D.C. Cir. 2014).

price (“LMP”) for energy when (1) the demand response resource has the capability to balance supply and demand as an alternative to a generation resource and (2) dispatch of the demand response resource is cost-effective as determined by a net benefits test described in Order No. 745.⁴ Order No. 745 set forth the parameters for adoption of the net benefits test to be used for determining when compensating a demand response resource at the market price is cost-effective, which the order defined as the market price level at which dispatch of the demand response resource lowers LMP sufficiently to offset the additional cost of compensating the resource at full market price.⁵ The Commission also directed RTOs to either demonstrate that their current cost allocation methodology for demand response appropriately allocates costs to those that benefit from lower market prices, or propose any necessary tariff revisions.⁶

On July 22, 2011, SPP submitted its filing in response to Order No. 745, indicating that SPP’s Energy Imbalance Service (“EIS”) Market already compensated demand response at the locational imbalance price (“LIP”) at all times and that a net benefits methodology would therefore be unnecessary.⁷ SPP also stated, *inter alia*, that its demand response cost allocation methodology for its EIS Market was sufficient for compliance with Order No. 745.⁸ On January 19, 2012, the Commission issued an order rejecting SPP’s compliance with the demand response compensation and cost allocation aspects of Order No. 745. The Commission indicated that SPP’s statement that it paid full LIP to demand response resources at all times had not addressed the multiple purposes of the net benefits test and directed SPP to “propose a net benefits test as detailed in Order No. 745, or . . . seek to demonstrate that the net benefits test requirements are satisfied by showing that, given the characteristics of its system and market, its existing practice of compensating demand response resources at the LIP is cost-effective”⁹

On May 2, 2012, SPP submitted the compliance filing required by the January 2012 Order.¹⁰ In that filing, SPP proposed a six-step process intended to identify the threshold price at which dispatch of demand response would be cost-effective as

⁴ Order No. 745 at PP 2, 47-48.

⁵ *Id.* at PP 3-4, 79-80.

⁶ *Id.* at PP 5-6, 100, 102.

⁷ Order No. 745 Compliance Filing of Southwest Power Pool, Inc., Docket No. ER11-4105-000, at 4-6 (July 22, 2011) (“July 22 Compliance Filing”).

⁸ July 22 Compliance Filing at 7-10.

⁹ *Sw. Power Pool, Inc.*, 138 FERC ¶ 61,041, at P 19 (2012) (“January 2012 Order”).

¹⁰ Compliance Filing of Southwest Power Pool, Inc., Docket No. ER11-4105-001 (May 2, 2013) (“May 2013 Compliance Filing”).

described in Order No. 745.¹¹ SPP also proposed to allocate on a regional basis through its revenue neutrality uplift (“RNU”) charge the costs for demand response committed and dispatched in cost-effective hours, as determined by the net benefits test.¹² On December 13, 2012, the Commission requested additional information regarding SPP’s May 2013 Compliance Filing.¹³ SPP filed a response on January 18, 2013,¹⁴ and on December 20, 2013, the Commission issued a letter order in Docket No. ER11-4105-001 accepting SPP’s proposed EIS Market Tariff revisions to comply with Order No. 745.¹⁵

B. Order No. 745 and the Integrated Marketplace

On February 29, 2012, SPP submitted to the Commission proposed revisions to its Tariff to transition from its Real-Time EIS Market to the SPP Integrated Marketplace, which includes (among other things): Day-Ahead and Real-Time Energy and Operating Reserve Markets, a Transmission Congestion Rights market, a consolidated SPP Balancing Authority Area, and a market power monitoring and mitigation plan based on conduct and impact thresholds. The Commission accepted the Integrated Marketplace proposal and subsequent compliance and amendatory filings in a series of orders issued October 18, 2012 (“October 2012 Order”),¹⁶ September 20, 2013,¹⁷ January 29, 2014,¹⁸ and June 19, 2014.¹⁹ SPP commenced operation of the Integrated Marketplace on March 1, 2014.

¹¹ *Id.* at 4-9.

¹² *Id.* at 11. SPP advised the Commission that, because states in the SPP region had not widely authorized participation in wholesale demand response programs to date, demand response from load reductions was relatively limited, and the costs of load reductions that SPP would be allocating through RNU would be relatively small. *Id.* at 12.

¹³ *See Sw. Power Pool, Inc.*, Letter, Docket No. ER11-4105-001 (Dec. 13, 2012).

¹⁴ Order No. 745 Compliance Filing—Response to Request for Information of Southwest Power Pool, Inc., Docket No. ER11-4105-001 (Jan. 18, 2013).

¹⁵ *Sw. Power Pool, Inc.*, Letter Order, Docket No. ER11-4105-001 (Dec. 20, 2013).

¹⁶ *Sw. Power Pool, Inc.*, 141 FERC ¶ 61,048, at P 2 (2012), *order on reh’g and clarification*, 142 FERC ¶ 61,205 (2013), *appeal dismissed sub nom. Neb. Pub. Power Dist. v. FERC*, No. 13-1181, 2014 U.S. App. LEXIS 10064 (D.C. Cir. Apr. 15, 2014).

¹⁷ *Sw. Power Pool, Inc.*, 144 FERC ¶ 61,224, at P 20 (2013).

¹⁸ *Sw. Power Pool, Inc.*, 146 FERC ¶ 61,050 (2014).

¹⁹ *Sw. Power Pool, Inc.*, 147 FERC ¶ 61,212 (2014).

In the October 2012 Order, the Commission directed SPP to incorporate into its Integrated Marketplace Tariff any provisions that would be appropriate in light of the requirements of Order No. 745. In a compliance filing dated January 22, 2014, SPP proposed net benefits test and cost allocation methodologies similar to those accepted by the Commission for use in its EIS Market.²⁰ SPP proposed to use the same net benefits test SPP adopted for the EIS Market. SPP anticipated however, that the methodology would have to be adjusted once SPP had access to a full year of Integrated Marketplace activity.²¹ For the Integrated Marketplace, SPP proposed a cost allocation methodology that would continue to allocate costs associated with load-reduction demand response on a regional basis. However, the new methodology, based on hourly charge types specific to load-reduction demand response, allocates cost based on the degree of benefit entities receive from the resulting LMP. In an order dated April 1, 2014,²² the Commission conditionally accepted SPP's proposed methodologies, subject to a compliance filing in which SPP would recommend any adjustments it found necessary after obtaining experience with these methodologies in the Integrated Marketplace.²³

II. 2016 COMPLIANCE FILING

In its April 2014 Order in this proceeding, the Commission directed SPP to reevaluate its demand response net benefits test and demand response cost allocation methodologies based on Integrated Marketplace data. However, since March 1, 2014, no load-reduction demand response activity has occurred in the Integrated Marketplace. Since commencement of the Integrated Marketplace, SPP has performed the six-factor net benefits test described in Section 3.9 of Attachment AE of the Tariff on a monthly basis, and historical data from the Integrated Marketplace was utilized for the net benefits test once it became available. Because no load-reduction demand response activity has occurred in the Integrated Marketplace, however, SPP has not had the opportunity to evaluate the need for any adjustments to this methodology.²⁴ SPP asks that, after load-reduction demand response activity has

²⁰ Submission of Tariff Revisions to Implement Order No. 745 in the SPP Integrated Marketplace, Docket No. ER12-1179-016 (January 22, 2014) ("January 2014 Filing").

²¹ As discussed *infra*, however, no load-reduction demand response activity has occurred in the Integrated Marketplace as of this filing.

²² *Sw. Power Pool, Inc.*, 147 FERC ¶ 61,001 (2014) ("April 2014 Order").

²³ April 2014 Order at PP 18-19.

²⁴ In a filing dated August 14, 2015, SPP proposed terminology changes to Tariff provisions regarding its net benefits test to reflect transition from EIS Market data to Integrated Marketplace data. The Commission accepted the revisions in an order dated October 8, 2015. *See Sw. Power Pool, Inc.*, Letter Order, Docket No. ER15-2452-000 (October 8, 2015).

occurred in the Integrated Marketplace, SPP be permitted to (1) file a report regarding such activity and (2) propose a timeline for any methodology adjustments and/or Tariff revisions deemed necessary. SPP seeks to ensure any reporting and/or responsive actions will be based on market data sufficient for meaningful analysis, and SPP would propose a timeline for any proposed Tariff revisions based on its actual experience.

As with its net benefits test, the absence of load-reduction demand response activity since commencement of SPP's Integrated Marketplace means that no activity has occurred with respect to the four demand reduction charge types the Commission approved for cost allocation purposes in the Integrated Marketplace.²⁵ As discussed in SPP's January 2014 Filing, this methodology will allocate costs associated with dispatch of demand response resources on a region-wide basis, but the costs will be allocated proportionally based on the benefit entities receive from a lower LMP.²⁶ From a technical standpoint, SPP believes no adjustments are needed to this cost allocation methodology. As discussed above with respect to the net benefits test, however, SPP requests that the Commission allow SPP to submit a report and propose a schedule for any necessary Tariff revisions after load reduction demand response activity has occurred. As also stated above, SPP wants any analysis, reporting, and responsive actions to be based on a meaningful amount of data based on SPP's actual experience.

III. CONCLUSION

For all of the foregoing reasons, SPP respectfully requests that the Commission allow SPP to wait until after load-reduction demand response activity has occurred in the Integrated Marketplace before reporting (as discussed above) regarding any perceived need for adjustment to its net benefits or cost allocation methodologies.

²⁵ These charge types include Day-Ahead Demand Reduction Amount (Attachment AE, section 8.5.24), Day-Ahead Demand Reduction Distribution Amount (Attachment AE, section 8.5.25), Real-Time Demand Reduction Amount (Attachment AE, section 8.6.21), and Real-Time Demand Reduction Distribution Amount (Attachment AE, 8.6.22).

²⁶ January 2014 Filing at 10.

Respectfully submitted,

/s/ Joseph W. Ghormley

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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 Little Rock, Arkansas, this 24th day of May 2016.

/s/ Michelle Harris
Michelle Harris