

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Competitive Transmission Development)	
Technical Conference)	Docket No. AD16-18-000
)	

PRE-TECHNICAL CONFERENCE COMMENTS OF SOUTHWEST POWER POOL, INC.

I. Introduction

Southwest Power Pool, Inc. (“SPP”) hereby submits the following comments for the Commission’s consideration in its review of issues related to transmission development in the above captioned docket. Specifically, the comments focus on interregional transmission planning, the establishment of appropriate thresholds for competitive transmission procedures, and the development of objective, transparent metrics to assess the benefits of the transmission planning rules developed pursuant to Order No. 1000.¹ SPP has requested to participate on panels 4 and 5 at the June 27-28, 2016 technical conference, and appreciates the opportunity to provide these initial comments to facilitate a productive discussion on these issues.

II. Comments

A. Panel 4: Interregional Transmission Coordination Issues

i. Interregional Transmission Coordination Issues

Based on the positive experiences with respect to the benefits of regional projects, SPP appreciates the potential value of interregional planning projects and is supportive of processes and policies that ensure the most efficient and cost effective transmission is planned and constructed. Regions of the country where wind potential is the greatest have experienced, and continue to experience, relatively significant growth in renewable generation technologies, specifically wind generation.² Additionally,

¹ *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, 2008-2013 FERC Stats. & Regs. Preambles ¶ 31,323 (2011), *order on reh’g and clarification*, Order No. 1000-A, 139 FERC ¶ 61,132, *order on reh’g and clarification*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012), *aff’d sub non. S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014), *reh’g denied en banc*, 2014 U.S. App. LEXIS 19968 (D.C. Cir. Oct. 17, 2014).

² For example, the SPP region has seen, and expects to continue to see, dramatic growth in wind generation. Currently, SPP has about 13 GW of wind generation connected to its system, representing

environmental regulations, state and federal policy and economics may result in changes in the generation mix, including further growth in renewable generation. These changes in the generation mix across the nation create an operational and economic environment that could benefit from interregional planning projects, which could facilitate effective and efficient electric grid and market administration.

Although there is general recognition that interregional planning and the resulting projects have potential merit, the respective organized market regions of the country have historically planned their transmission systems in disregard of the benefits of coordinating plans and projects with surrounding systems. Moving forward, grid administrators should endeavor to develop appropriate interregional planning procedures that focus on maximizing operational and economic benefits in a manner that plans the most effective and efficient projects and then equitably allocates the costs of such projects. The driver of such processes should be the operational and economic benefits, and artificial barriers, such as the size or location of the project, should be removed unless they impact project benefits. There are a myriad of issues that need to be addressed to develop effective and useful procedures, such as the development of objective benefits and cost allocation metrics to be consistently applied by planning regions, but the potential benefits of interregional transmission projects warrant the continued effort by the Commission and industry to enhance this initiative.

To date, interregional planning efforts have had little success in terms of project development. In fact, SPP is not aware of any interregional projects that have been developed under approved Order No. 1000 processes. However, given the complexity of the current processes to identify projects, it is reasonable to view these efforts as still being in their nascent stages, and the relevant regions of the country have engaged each other to support the development of interregional projects. Specifically, from SPP's perspective, there is effective coordination with respect to data exchanges and stakeholder participation. The development of these foundational efforts has been successful, but they need to be part of a comprehensive process that has the ability to identify and develop appropriate projects. Unless these efforts eventually produce results, there is the risk that interest and support for these initiatives will wane, undermining the potential for achieving the benefits of interregional transmission

about 15% of the total installed generating capacity in SPP. Earlier this year, SPP saw nearly 50% of its load being served by wind generation. Prospectively, SPP has executed Generator Interconnection Agreements for another 8 GWs by the end of 2018, which would increase the total wind nameplate capacity to 21 GW.

As renewable resources are added to the SPP system, it will eventually reach a point where SPP can no longer reliably utilize all the renewable generation in dispatching the SPP grid - even with additional transmission infrastructure in SPP. At that point, a percentage of the renewable generation on the SPP system will either be curtailed, or it will have to be delivered to other regions. Interregional transmission solutions can facilitate export of renewable generation in SPP to other regions. However, given the time it takes to plan, design, and construct these transmission solutions, it is critical to make substantive improvements in the interregional planning process as soon as possible.

planning and projects. As discussed in more detail below, there are other obstacles to successful interregional transmission planning.

One issue that arguably hinders interregional planning efforts is the fact that the criteria and processes approved under Order No. 1000 for this purpose reflect minimal standards, and, therefore, do not foster productive interregional planning efforts. Relevant regions should continue to review their procedures and consider potential changes to interregional planning processes to enhance their effectiveness. To put the issue in perspective, SPP and the Midcontinent Independent System Operator, Inc. (“MISO”), respectively, have spent approximately 10 and 20 billion dollars on regional transmission system upgrades, but there have been no interregional projects between the two regions. Various planning studies, operational experience, including market-to-market, and each Regional Transmission Organization’s (“RTO”) State of the Market reports indicate there continue to be areas along the seams that could benefit from additional transmission investment.

As noted above, the drivers for interregional projects should be consistently applied operational and economic benefits, provided that those benefits can be reasonably and specifically identified such that the costs of the projects can be equitably allocated. Accordingly, these three issues – project eligibility criteria, benefit quantification and cost allocation - are key issues in developing effective interregional planning rules and procedures, and ineffective rules in these respects can undermine interregional transmission development. For example, some regional planning rules exclude a host of projects from regional cost allocation. This, in turn, then makes those same type of projects ineligible for interregional cost allocation, thereby effectively precluding such projects from consideration in that forum, despite the fact that they could have merit in terms of supporting incremental operational and/or economic benefits. Minimizing the types and calculation of benefits reduces the likelihood that the cost barriers can be overcome and also that an equitable cost allocation can be obtained. This can result in an inefficient allocation of costs if the narrow benefit cost allocation rules effectively prevent equitable allocation, which can then create a barrier to such projects if there is opposition based on the allocation.

With respect to eligibility criteria, as discussed, projects should be driven by the operational and/or economic benefits. However, existing eligibility rules are based on other criteria, such as the physical or cost characteristics of projects – e.g. voltage, mileage or project cost. While the objective nature of these types of criteria are attractive from an administration perspective, they may not be determinative with respect to the benefits of a project. These can create artificial barriers to projects that are otherwise beneficial, but fall outside of these thresholds. There may be value in the use of such metrics, but only if they have some relationship to assessing the operational and/or economic benefits of a project. Another issue that can impact the development of effective eligibility criteria is the potential disconnect between market signals that serve as a basis to justify the project in terms of benefits. To the extent market signals

don't align and/or are opaque, and, therefore not capable of being applied effectively in a benefits test, then the process will be ineffective and inefficient, because it will not be based on an appropriate analysis of benefits.

The time associated with administering interregional planning processes can also pose a problem. For example, the initial SPP-MISO interregional process took two years to complete. This can undermine the effectiveness of the process in practice and perception if, for example, the value of potential projects changes over such an extended review period, or if there is negative stakeholder perception, which can erode support. Granted, the complexity of these types of projects necessitates, to some degree, a lengthy process, because it includes both interregional and regional reviews. For example, interregional studies to identify interregional issues and associated projects are complex and take time to perform. These are then reviewed regionally, which typically involves complex studies, and those efforts have to be coordinated. Collectively, this is a complex process that cannot be done overnight. However, relevant entities should continue to review these processes to consider potential changes to enhance the efficiency and timing of the process.

ii. Multiple Regional Planning

Order No. 1000 was premised on the need for coordination and planning between two regions. As the regions have developed, their configurations have created situations where the planning process and interregional planning would need to be coordinated with multiple regions. This is apparent from the independent development of transmission projects that span multiple regions. As such the planning must be ineffective if these cannot be developed or analyzed in the interregional processes to insure that effective and efficient projects are developed and not just arbitrated.

B. Panel 5: Regional Transmission Planning and Other Transmission Development Issues

i. Thresholds for the Application of Competitive Transmission Solicitation Procedures

The overarching value proposition for competitive transmission solicitations is the potential economic benefits – i.e. “more efficient and cost-effective solutions” that meet the system needs. While this goal is laudable, the cost of the project alone may not be the only relevant cost in assessing the benefits of this process. Specifically, the costs to create a competitive proposal and the costs to administer and evaluate the proposals can outweigh the project benefits. Typically, this issue would be expected to arise in the context of competitive solicitations for smaller projects where the net savings on project costs is relatively small, and, therefore, may be exceeded by the administrative costs for the competitive solicitation process.

For example, SPP recently completed its first competitive solicitation process, which included 11 competitive proposals. Anecdotally, it is SPP's understanding that the cost for the development of these competitive proposals was in the neighborhood of \$300,000 to \$400,000 for each proposal. From SPP's perspective, the cost to establish and administer the process was in excess of \$500,000. In total, we expect that the total dollars spent by both the prospective developers and SPP was in excess of 50% of the total cost of the selected project, which was 8.3 million dollars. Although the specific costs of developing each competitive proposal is confidential, SPP's experience demonstrates, albeit qualitatively, that for smaller projects the cost benefits intended to be achieved by the competitive solicitation process may not be justified in light of the total costs incurred by all parties to achieve those benefits.

One means of mitigating this issue is to apply a threshold to the competitive solicitation process. There are a number of ways to do this. For example, the threshold could be based on the physical characteristics of the project that typically relate to project costs where the expected net savings from the competitive process would be expected to outweigh the processing costs. In essence, the premise of such a threshold would be based on an expected favorable cost-benefit outcome, where the project cost-benefits outweigh the processing costs to SPP and the bidding entities.

SPP appreciates that the project cost benefit is a dynamic number, which obviously affects the cost-benefit determination. Accordingly, any threshold would have to provide reasonable assurance that projects that do not meet the standard would likely provide project cost benefits that are outweighed by the competitive transmission solicitation processing costs. SPP is not offering a specific threshold proposal, but believes the issue may warrant additional review and consideration by the Commission to ensure the intended benefits of Order No. 1000 are achieved. If the Commission elects to review this matter further, it should engage relevant stakeholders to develop appropriate thresholds generally and/or within specific regions where this approach is consistent with particular region rules.

ii. Order No. 1000 Implementation Metrics

Order No. 1000 imposed a series of novel and relatively complex rules on the planning processes in organized market regions of the country. The implementation of the rules involved extensive efforts by the impacted Independent System Operators ("ISO") and RTOs and their members, as well as the Commission. In order to assist the Commission in its regulation of this aspect of ISO/RTO functions, it may be helpful to consider the development of objective, transparent metrics to assess the benefits achieved under the Order No. 1000 paradigm. While there is value to using a single common set of metrics for this purpose, the Order No. 1000 rules vary between the jurisdictional ISOs/RTOs. Accordingly, any metrics developed for this purpose would need to mitigate the potential for disparate assessments due to some unintended bias resulting from the application/impact of the metrics to an entity's specific rules. In

other words, the metrics would need to be relative to objective benchmarks that apply to all ISOs/RTOs regardless of their specific implementation rules. If the Commission pursues the development of Order No. 1000 implementation metrics, it should establish appropriate procedures that facilitate input from all interested parties.

III. Conclusion

The Commission has expended significant effort to enhance the transmission planning processes in organized market regions and regions that do not operate within RTOs or ISOs. The upcoming technical conference continues those efforts and provides the Commission with a means to engage industry in a dialogue on these issues. SPP appreciates the opportunity to provide the foregoing pre-technical conference comments, and looks forward to assisting the Commission in its review of these matters.

/s/ Matt Morais

Matt Morais
Associate General Counsel
Southwest Power Pool, Inc.
201 Worthen Drive
Little Rock, AR 72223-4936
(501) 482-2328 (office)
(603) 512-5252 (cell)
mmorais@spp.org