



**Southwest Power Pool, Inc.**

**REGIONAL ALLOCATION REVIEW TASK FORCE MEETING**

**February 17, 2017**

**AEP Offices – Dallas, TX**

**• MEETING MINUTES •**

**9. RR-155 Remedy Business Practice**

Harry Skilton and Richard Ross discussed the RR-155 that was remanded by the Board to the RARTF. Discussion points included that the RARTF Report already captures this information and that it was more for the benefit of the task force than for SPP Staff and should be retained as a guideline for future task force members and discussions.

Harry Skilton made a motion to file RR-155 as a process document for SPP Staff and the RARTF to use during future RCARs. Additionally, the RARTF withdraws its request for the SPP BOD to approve RR-155. Phil Crissup (OGE) seconded the motion and all voted yes, except for Bill Grant (SPS) who abstained.

## Revision Request Recommendation Report

<b>RR #: 155</b>	<b>Date: 3/24/2016</b>
<b>RR Title: Potential RCAR Remedies</b>	
<b>SUBMITTER INFORMATION</b>	
<b>Submitter Name:</b> Ben Bright on behalf of RARTF	<b>Company:</b> SPP
<b>Email:</b> bbright@spp.org	<b>Phone:</b> 501-14-3965
<b>EXECUTIVE SUMMARY AND RECOMMENDATION FOR MOPC AND BOD ACTION</b>	
<p>This Revision Request defines and details the approval and implementation process that will be used for a Regional Cost Allocation Review remedy. The potential remedies discussed in this request are those potential remedies included in the RARTF Report that was published and approved in January 2012.</p> <p>All reviewing working groups have approved this request. There were several opposition and abstention votes in the stakeholder working groups. This request failed at the January 15, 2017 MOPC meeting only getting a 42% approval.</p>	
<b>OBJECTIVE OF REVISION</b>	
<p><b>Objectives of Revision Request:</b>          This new Business Practice will lay the foundation for documenting the potential RCAR remedies and clarify the process that will be used when implementing a remedy in the RCAR process.</p> <p>The benefit of the new Business Practice is to document a process that will be followed in analyzing potential remedies and the process by which these potential remedies will be approved and implemented for zones that fall below the approved threshold in the RCAR process.</p>	
<b>SPP STAFF ASSESSMENT</b>	
<p><b>SPP Staff supports this Revision Request</b></p>	
<b>IMPACT</b>	
<p><b>Will the revision result in system changes</b> No <input type="checkbox"/> Yes <input type="checkbox"/></p> <p><b>Summarize changes:</b></p> <p><b>Will the revision result in process changes?</b> <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes</p> <p><b>Summarize changes:</b> Formal documentation a process that will be followed in analyzing potential remedies and the process by which these potential remedies will be approved and implemented for zones that fall below the approved threshold in the RCAR process.</p>	

Is an Impact Assessment required?  No  Yes

**If no, explain:** It is staffs belief that this request only documents the process that would use in the event a remedy was requested by a Deficient Zone. This process is not different than SPP would use without this request.

Estimated Cost: \$ \_\_\_\_\_ Estimated Duration: \_\_\_\_\_ months

Primary Working Group Score/Priority: N/A

**SPP DOCUMENTS IMPACTED**

<input type="checkbox"/> Market Protocols	Protocol Section(s):	Protocol Version:
<input type="checkbox"/> Operating Criteria	Criteria Section(s):	Criteria Date:
<input type="checkbox"/> Planning Criteria	Criteria Section(s):	Criteria Date:
<input type="checkbox"/> Tariff	Tariff Section(s):	
<input checked="" type="checkbox"/> Business Practice	Business Practice Number: New Practice	

**WORKING GROUP REVIEWS AND RECOMMENDATIONS**

List Primary and any Secondary/Impacted WG Recommendations as appropriate

<b>Primary Working Group:</b> <b>BPWG</b>	<b>Date: 4/21/2016</b> <b>Action Taken: Initial review, to be submitted as an Approval item at the May 23, 2016 meeting</b> <b>Date 5/23/2016</b> <b>Action Taken: Approved 6-4,</b> <b>Opposed: KCPL, SECI, ITC,SPS</b> <b>Abstained: NPPD</b> <b>Date: 11/16/2016</b> <b>Action Taken: Approved</b> <b>Opposed SECI, XCEL, KCPL</b> <b>Abstained: ITC</b>
<b>Reason for Opposition</b>	<b>Opposed felt there is no need for this Business Practice.</b>
<b>Secondary Working Group:</b> <b>ORWG</b>	<b>Date: 5/5/2016</b> <b>Action Taken: Approved, unanimously</b>
<b>Secondary Working Group:</b> <b>RTWG</b>	<b>Date: 5/26/2016</b> <b>Action Taken: Declined to take action, requested clarification</b> <b>Date: 10/20/2016</b> <b>Action Taken: Approved</b> <b>Abstained: ITC, CUS, NPPD, OPPD</b> <b>Opposed: SEPC, ETC, GSEC, WFEC, XCEL EDE</b>
<b>Reasons for Opposition:</b>	<b>Opposed felt there is no need for this Business Practice.</b>

<b>Secondary Working Group: TWG</b>	<b>Date: 5/18/2016</b> <b>Action Taken: Deferred review, citing no impact</b>
<b>MOPC</b>	<b>Date: 1/15/2017</b> <b>Action Taken: Failed 58-42%</b> <b>Abstained:</b> <b>Opposed:</b>
<b>Reasons for Opposition: Varied rationale for the opposition.</b>	
<b>BOD</b>	<b>Date: 1/31/2017</b> <b>Action Taken: Failed RR appealed to BOD. BOD remanded RR 155 to RARTF.</b>
<b>COMMENTS</b>	
<b>Comment Author: Marguerite Wagner. ITC</b>	
<b>Date Comments Submitted: 4/22/2016</b>	
<p>The Regional Cost Allocation Review (RCAR) process attempts to identify whether benefits from transmission accrue to zones commensurately with payments. In managing this process SPP must ensure that RCAR remedies do not create perverse incentives that could impact both transmission build, system-wide funding, and competitive opportunities.</p> <p>Remedy 1 (Acceleration of Upgrade), as proposed, could a change a need date of a project and potentially thereby affect whether a project is competitively bid. Acceleration of a project due to RCAR should not eliminate a project from the “competitive bucket.” Thus we propose that a project, once classified as competitive, would not change status if accelerated for RCAR. Note that as the project originally met the classification as competitive prior to (any) acceleration of need date determined through RCAR, the project will likely be in-service prior to the original need date, providing reliability and market benefits to the zone and region. Thus the competitive selection process for the project as set forth in SPP Tariff Attachment Y will not cause the zone any detriment. This is true even if the acceleration of the project need date would bring the need date inside of the three year window that would, under current Tariff language, be a project not included in the competitive process--because the original need date fell outside of this window.</p> <p>Remedy 2 (Issuance of a NTC for a Selected New Upgrade), potentially creates an incentive for a deficient zone to keep zonal projects out of an ITP, so that they would be identified as deficient in a subsequent RCAR, and then potentially accelerated per Remedy 1, again pointing out the need to modify Remedy 1 to not re-classify projects out of the competitive bucket. Remedy 2 also requires modification to eliminate the incentive to reclassify projects out of the “competitive bucket.”</p> <p>Remedies 5 (Zonal Transfers) and 6 (Exemption) should be “last resort” remedies and used only after all opportunities for Remedies 1-4 have been exhausted. In the interconnected system and the Integrated Market, the choices made within one zone affect all other zones. Creating incentives and opportunities that result in asymmetrical transmission investment could potentially result in a ‘balkanized; system for periods of time, thus potentially exacerbating load or generation pockets to the detriment of the region as a whole.</p>	
<b>Status: To be reviewed by RTWG and BPWG... BPWG and RTWG declined to include ITC recommendations.</b>	
<b>Comment Author: Jim Flucke/KCPL</b>	
<b>Date Comments Submitted: 5/23/2016</b>	
KCP&L voted against the motion to approve RR #155 because it is the same language that rejected by FERC in Docket No. ER15-1139. While the change to the Business Practices does provide some high level guidance to Market Participants it “does not provide clarity and transparency to the RCAR process” and does not change the requirement for FERC approval of most remedies.	

SPP Business Practices

**Background**

In approving the Highway/Byway cost allocation methodology for the Southwest Power Pool, Inc. (SPP) Regional Transmission Organization (RTO), the Federal Energy Regulatory Commission (FERC) in Attachment J Section III.D of the SPP OATT, also approved a requirement that SPP conduct a review of the “reasonableness of the regional allocation methodology and factors (X% and Y%) and the Zonal allocation methodology at least once every three years.” This review is required to “determine the cost allocation impacts of the Base Plan Upgrades with Notifications to Construct (NTC) issued after June 19, 2010 to each pricing Zone within the SPP Region.” Thus, the purpose of this analysis is to measure the “cost allocation impacts” of SPP’s Highway/Byway methodology by Zone. The review is hereinafter referred to as the “Regional Cost Allocation Review” (RCAR).

SPP’s Open Access Transmission Tariff (Tariff or OATT) specifically requires that “the Markets and Operations Policy Committee (MOPC) and Regional State Committee (RSC) will define the analytical methods to be used” in conducting the Regional Cost Allocation Review. As a result, the Regional Allocation Review Task Force (RARTF) was created as part of the SPP stakeholder process to develop the “analytical methods” used for the review.

The Regional Cost Allocation Review process is defined in the RARTF Final Report that was published and approved in January 2012. In this report, the RARTF makes a number of recommendations as to how SPP should conduct the Regional Cost Allocation Review. This includes a recommendation of applying ten principles, used by the RARTF, as a guide to conducting the review. These principles include: simplicity; acknowledgment of the “roughly commensurate” legal standard; equity over time; the use of the best quantifiable information available; consistency; transparency; stakeholder input; the use of real dollars values; and the inclusion in the review of Board approved transmission plans with more weight being given to nearer term projects.

Through the work of the Economic Studies Working Group (ESWG) certain benefits will be measured in the review. These benefits include, but are not limited to: adjusted production costs; positive impact on capacity required for losses; improvements in reliability; remedy benefits in future reviews; reduction of emission rates and values; reduced operating reserves; improvements to import/export limits; and public policy benefits.

Additionally, the RARTF recommended a Benefit to Cost (B/C) threshold that serves as the basis by which SPP and stakeholders evaluate each zone in the RCAR analysis. Zones that fall below the defined threshold of 0.8 (“Deficient Zones”) require that SPP evaluate and study potential remedies for that zone. The potential remedy would be utilized to bring the Deficient Zone(s) to the threshold level or higher.

The RARTF also prescribed some potential remedies, listed in order of preference that SPP staff ~~could~~ should evaluate. These include, but are not limited to:

<b>Remedy</b>	<b>Entity with Authority/Duty to Implement</b>
<b>(1) Acceleration of planned upgrades;</b>	<b>SPP BOD</b>
<b>(2) Issuance of NTCs for selected new upgrades;</b>	<b>SPP BOD</b>
<b>(3) Apply Highway funding to one or more Byway Projects;</b>	<b>RSC, SPP BOD &amp; FERC</b>
<b>(4) Apply Highway funding to one or more Seams Projects;</b>	<b>RSC, SPP BOD &amp; FERC</b>
<b>(5) Zonal Transfers (similar to Balanced Portfolio Transfers) to offset costs or a lack of benefits to a zone;</b>	<b>RSC, SPP BOD &amp; FERC</b>
<b>(6) Exemptions from cost associated with the next set of projects;</b>	<b>RSC, SPP BOD &amp; FERC</b>
<b>(7) Change Cost Allocation Percentages.</b>	<b>RSC, SPP BOD &amp; FERC</b>

The process for conducting a RCAR analysis has been documented in the RARTF Final Report with subsequent guidance provided to staff by the RARTF. In addition, SPP shall provide a “lessons learned” guidance document following each RCAR analysis as an enhancement for consideration in future RCAR analyses. This Business Practice will provide the details regarding each potential remedy listed above and detail the approval and implementation process that will be followed. It is also important to note that the list of potential remedies above is not exhaustive and an alternative remedy(s) could be recommended by the RARTF. Any alternative remedy would require a detailed approval and implementation plan to be included in the RCAR Report and approved through a stakeholder process.

### **Starting the Review Process**

At least one year prior to the start of a cost allocation review, the MOPC and RSC shall create, or reaffirm, the RARTF. The RARTF shall be responsible for: (1) working with SPP Staff to create the criteria for the RCAR analysis, (2) reviewing the results of the analysis, and (3) presenting the results of the RCAR study to the MOPC and RSC.

### **Detailed Remedy Analysis**

#### **Remedy #1 - Acceleration of Planned Upgrades**

Definition of Remedy: Acceleration of a planned upgrade<sup>1</sup> would occur when an upgrade has already been approved for construction by the SPP BOD and by building the approved upgrade sooner than the original need by date. This remedy will allow for a Deficient Zone to realize the benefits of that specific upgrade sooner than planned.

Approval and Implementation of Remedy: Staff will work with a Deficient Zone(s) to assess if by changing the need by date for any upgrade would provide additional benefits to the Deficient Zone while still meeting the needs of the system. If such

<sup>1</sup> For purposes of this Business Practice, an “upgrade” shall mean any new transmission facility or upgrade to an existing SPP Network facility as defined in the SPP Tariff.

an upgrade is determined by the RARTF to be a potential remedy for a Deficient Zone, the change in the upgrade's need by date may be recommended by the RARTF to the MOPC and RSC. If an upgrade was designated for competitive selection under Attachment Y of the SPP Tariff, modification to the need date through the RCAR process shall not modify the competitive classification of the upgrade in the recommendation to the SPP BOD. No additional studies are planned to assess this remedy other than a RCAR analysis. The approval process of this remedy will be the endorsement by the RSC and the MOPC to the SPP BOD. Upon approval by the SPP BOD, SPP shall issue a modification of the upgrade's NTC. This remedy would remain in effect for the life of the upgrade(s).

### **Remedy #2 – Issuance of NTC for a Selected New Upgrade**

Definition of Remedy: Issuance of NTC for a selected new upgrade or a rebuild of a facility would occur when a new transmission upgrade will provide benefits to one or more Deficient Zones.

Approval and Implementation of Remedy: Staff will work with any Deficient Zone to assess if any transmission upgrade can provide additional benefits to the Deficient Zone while still meeting the needs of the system. These projects would be recommended by the RARTF to the MOPC and RSC to be included in any planning study process outlined in the tariff. If the proposed remedy is included as part of the final portfolio of transmission projects for the SPP BOD approval, then upon the SPP BOD approval of the portfolio of projects an NTC or RFP will be issued. This remedy would remain in effect for the life of the upgrade(s).

### **Remedy #3 – Apply Highway Funding to one or more Byway Projects**

Definition of Remedy: Changing the cost allocation of an upgrade for a Deficient Zone between the voltages of 100 kV and 300 kV<sup>2</sup> to 100% regional allocation<sup>3</sup>. Changing the cost allocation of an upgrade to 100% regional allocation would provide benefit to a Deficient Zone by removing costs that would normally be assigned to that Zone and allocated to the entire SPP footprint.

Approval and Implementation of Remedy: To be eligible, the upgrade must have been built or approved for construction through the SPP Planning process. At the conclusion of an RCAR analysis, the RARTF may recommend that an upgrade may have its cost allocation methodology changed to a 100% regional allocation.

The RARTF would present a recommendation to the CAWG and the MOPC for their consideration. The final RARTF recommendation would then be presented and debated with all appropriate stakeholder groups including the RSC and the BOD prior to any external filings. In the end, pursuant to Section 7.2 of the SPP Bylaws, any change to cost allocation provisions including this RCAR remedy, would require that this remedy along with any necessary Tariff language or waiver request to be approved by the RSC and filed with FERC. In addition, this remedy shall be reviewed and evaluated for reauthorization at each subsequent RCAR analysis. If, following each subsequent RCAR analysis, the remedy is not recommended by RCAR to be reauthorized; appropriate filings shall be made at the FERC to revert the cost allocation to the standard Zonal allocation. If, following each subsequent RCAR analysis, the remedy is recommended for reauthorization, the remedy would remain in effect until such time as the cost allocation is changed by the FERC.

### **Remedy #4 – Apply Highway Funding to one or more Seams Projects**

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<sup>2</sup> The cost allocation for an upgrade that is operated at voltages between 100 kV and 300 kV is 33% Regional and 67% to the Zone where the upgrade is built. This is generally referred to as "Byway" funding.

<sup>3</sup> The cost allocation for an upgrade that is operated at voltages above 300 kV is allocated 100% to the entire SPP footprint and is generally referred to as "Regional" or "Highway" funding.

For Order 1000 Interregional Projects: Projects approved within the Order 1000 processes with both MISO and SERTP are eligible to have Highway funding with no additional FERC approval needed.

For Non-Order 1000 Seams Projects: Projects approved outside of an interregional Order 1000 process will need to get FERC approval for any change in cost allocation. The process for Remedy #3 above would be used for these projects.

#### **Remedy #5 – Zonal Transfers (similar to Balanced Portfolio Transfers) to offset costs or lack of benefits to a zone**

Definition of Remedy: Zonal transfers would occur when a Deficient Zone's allocation of cost is reduced by decreasing the amount of the Deficient Zone's zonal Annual Transmission Revenue Requirement (ATRR) by a set amount and adding that amount to the Base Plan Regional ATRR, in a similar manner to Balanced Portfolio Transfers.

Approval and Implementation of Remedy: At the conclusion of an RCAR analysis, the RARTF may determine that a zonal transfer would be an appropriate remedy for a Deficient Zone. The RARTF would present a recommendation to the CAWG and the MOPC for their consideration. The final RARTF recommendation would then be presented and debated with all appropriate stakeholder groups including the RSC and the BOD prior to any external filings. In the end, pursuant to Section 7.2 of the SPP Bylaws, any change to cost allocation provisions including this RCAR remedy, would require that this remedy along with any necessary Tariff language or waiver request to be approved by the RSC and filed with FERC. In addition, this remedy shall be reviewed and evaluated for reauthorization at each subsequent RCAR analysis. If, following each subsequent RCAR analysis, the remedy is not recommended by RCAR to be reauthorized; appropriate filings shall be made at the FERC to revert the cost allocation to the standard Zonal allocation. If, following each subsequent RCAR analysis, the remedy is recommended for reauthorization, the remedy would remain in effect until such time as the cost allocation is changed by the FERC.

#### **Remedy #6 – Exemptions from costs associated with a future set of base plan funded projects**

Definition of Remedy: Exemptions from costs from a future set or subset of base planned funded projects would occur when a Deficient Zone is not allocated some or all of its regular allocation of a set of approved upgrades.

Approval and Implementation of Remedy: At the conclusion of an RCAR analysis, it may be determined that exempting a Deficient Zone from cost allocation for a set of projects would be the appropriate remedy. The RARTF would present a recommendation to the CAWG and the MOPC for their consideration. The final RARTF recommendation would then be presented and debated with all appropriate stakeholder groups including the RSC and the BOD prior to any external filings. In the end, pursuant to Section 7.2 of the SPP Bylaws, any change to cost allocation provisions including this RCAR remedy, would require that this remedy along with any necessary Tariff language or waiver request to be approved by the RSC and filed with FERC. In addition, this remedy shall be reviewed and evaluated for reauthorization at each subsequent RCAR analysis. If, following each subsequent RCAR analysis, the remedy is not recommended by RCAR to be reauthorized; appropriate filings shall be made at the FERC to revert the cost allocation to the standard Zonal allocation. If, following each subsequent RCAR analysis, the remedy is recommended for reauthorization, the remedy would remain in effect until such time as the cost allocation is changed by the FERC.

#### **Remedy #7 – Change Cost Allocation Percentages**

Definition of Remedy: Changing cost allocation percentages would occur when the RCAR analysis indicates that the current cost allocation structure is no longer assigning costs to all Zones in a manner that is roughly commensurate to the calculated benefits.

Approval and Implementation of Remedy: The RARTF would present a recommendation to the CAWG and the MOPC for their consideration. The final RARTF recommendation would then be presented and debated with all appropriate



stakeholder groups including the RSC and the BOD prior to any external filings. In the end, pursuant to Section 7.2 of the SPP Bylaws, any change to cost allocation provisions including this RCAR remedy, would require that this remedy along with any necessary Tariff language or waiver request to be approved by the RSC and filed with FERC.