UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Southwest Power Pool, Inc.) Docket No. ER08-1419-000

Answer Of Southwest Power Pool, Inc.
To Intervenors' Comments

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure,[1] Southwest Power Pool, Inc., ("SPP") submits this answer to intervenors' comments[2] filed in this proceeding.[3]

I. Introduction

On August 15, 2008, SPP filed amendments to its Open Access Transmission Tariff ("Tariff") to establish a process for including a "balanced portfolio" of economic upgrades into the SPP Transmission Expansion Plan ("STEP") and a regional postage stamp rate design for recovery of costs of such upgrades.[4] As SPP noted in the August 15

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1 18 C.F.R. § 385.213.

2 SPP answers the comments filed by Empire District Electric Company ("Empire") and ITC Great Plains, Inc. ("ITC Great Plains").

3 SPP seeks leave to answer the comments filed in this case, to assist the Commission's decision-making process and clarify the issues. The Commission regularly allows answers for such purpose. *See, e.g.*, *Cal. Indep. Sys. Operator Corp.*, 110 FERC ¶ 61,007, at P 9 (2005) (answer assisted the Commission's decision-making process); *PJM Interconnection, L.L.C.*, 104 FERC ¶ 61,031, at P 10 (2003) (accepting answers because "it will not delay the proceeding, will assist the Commission in understanding the issues raised, and will insure a complete record upon which the Commission may act").

4 SPP Submission of Revisions to Open Access Transmission Tariff to Add "Balanced Portfolio" Cost Allocation Process for Economic Planning Upgrades, Docket No. ER08-1419-000 (Aug. 15, 2008) ("August 15 Filing").

Filing, the amendments were developed through an extensive stakeholder process and have overwhelming stakeholder and state commission support.[5] Significantly, no party protested the August 15 Filing and only four parties filed comments, all of which expressed support for the balanced portfolio initiative.[6] Two commenters, however, raise limited concerns, which SPP addresses in this answer.

II. The Stakeholder Process Provided For By The Balanced Portfolio Tariff Amendments Is The Proper Avenue To Evaluate Additional Benefit Metrics For The Cost Benefit Analysis

As SPP explained in the August 15 Filing, SPP initially proposes to use an adjusted production cost metric to determine the benefits of a potential balanced portfolio.[7] However, as memorialized in the Tariff, SPP also has committed to "continue to evaluate and explore with the stakeholders via the transmission planning process any

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5 August 15 Filing at 2; *see also* Amended Notice Of Intervention Of The Missouri Public Service Commission, Docket No. ER08-1419-000, at 1-3 (Sept. 11, 2008) ("MoPSC Amended Notice").

6 *See* Motion To Intervene And Supporting Comments Of TDU Intervenors, Docket No. ER08-1419-000, at 2 (Sept. 5, 2008) ("TDU Intervenors urge the Commission to accept SPP's 'balanced portfolio' proposal."); Motion To Intervene And Comments By Empire District Electric Company, Docket No. ER08-1419-000, at 3 (Sept. 5, 2008) ("Empire generally supports SPP's filing.") ("Empire Comments"); Motion For Leave To Intervene And Comments of ITC Great Plains LLC, Docket No. ER08-1419-000, at 3 (Sept. 5, 2008) ("ITC Great Plains supports SPP's efforts to provide for regional cost sharing for qualifying economic upgrades in SPP.") ("ITC Great Plains Comments"); MoPSC Amended Notice at 1 ("The Missouri Commission . . . hereby amends its Notice Of Intervention in this proceeding with the following comments in support of the conceptual framework of the 'Balanced Portfolio' approach and the associated cost allocation for cost beneficial transmission upgrades filed on August 15, 2008 by the SPP in this docket.").

7 August 15 Filing at 10; Tariff, Attachment O, proposed § IV(6)(d); *see also* MoPSC Amended Notice at 3 ("After several meetings, the proposal recommended to the RSC was to use adjusted production cost savings as the basic measure of benefits from transmission upgrades.").

additional metrics and criteria which have quantifiable economic effects" and to amend the Tariff to include those metrics as appropriate.[8] As the Missouri Public Service Commission explained in its amended notice supporting the August 15 Filing, "[w]hile other benefits were considered, adjusted production costs were the only metrics that are readily available for application at this time;" however, the Regional State Committee ("RSC") and SPP "are committed to the development of additional metrics of benefits associated with savings related to such things as lower transmission losses, reduced reserve margins, and increased reliability."[9]

Despite this commitment by SPP and the RSC to consider additional metrics, ITC Great Plains suggests that "at least some of these additional benefit measures should be incorporated into this proposal by a date certain so that these additional metrics will be used for the balanced portfolios after the first balanced portfolio planned by SPP for January 2009."[10] This suggestion not only is unnecessary given SPP's and the RSC's commitment, but it also could hinder the opportunity for stakeholder input into the determination of the additional benefit metrics that should be included in the balanced portfolio benefit analysis. Consideration of the additional metrics (such as reduction in system losses) through the stakeholder process ensures that the potential benefits are actual benefits worthy of inclusion in the balanced portfolio analysis, that the inclusion of additional benefits has stakeholder backing, and that the process is transparent. To require that a potential benefit be included in the analysis by a date certain could interrupt

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8 Tariff, Attachment O, proposed § IV(8).

9 MoPSC Amended Notice at 3.

10 ITC Great Plains Comments at 4.

this stakeholder process and possibly result in the inclusion of benefits that lack stakeholder support or that are not truly benefits. Moreover, the commitment to examine additional benefits is set forth in the Tariff and is not optional. In short, the evaluation of what and when additional benefit metrics should be included in the balanced portfolio cost benefit analysis is best conducted through the stakeholder process without a specific mandated timetable.

III. Evaluating The Costs And Benefits Of A Potential Balanced Portfolio Over A Ten-Year Period Is Just And Reasonable

Contrary to concerns expressed by ITC Great Plains, the use of a ten-year timeframe for determining the costs and benefits of a potential balanced portfolio is just and reasonable. While SPP acknowledges that benefits likely increase as compared to costs the further out in an evaluation period one looks, the ten-year period conservatively balances the inevitable uncertainty in determining forecasted benefits with the need to consider future benefits. As ITC Great Plains notes, the useful life of a transmission facility is "40 years or even longer."[11] Considering only the first ten years therefore will produce somewhat conservative estimates of the total benefits of a facility. But it also will ameliorate the uncertainty inherent in any long-term projection, as there can be no dispute that projections more than ten years in the future by definition will lack certainty.[12] This conservative approach better ensures that ratepayers who pay for the

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11 *See* ITC Great Plains Comments at 5.

12 *See Midwest Indep. Transmission Sys. Operator, Inc.,* 118 FERC ¶ 61,209, at P 156 (2007) ("We recognize the concern of numerous commenters that projections of benefits for periods farther into the future will generally be less reliable than projections for the nearer term."); *PJM Interconnection, L.L.C.,* 123 FERC ¶ 61,051, at P 79 (2008) ("We recognize concerns that predictions about the distant future can be uncertain.").

economic upgrades also will benefit from them, without speculating about uncertain benefits many years in the future. Moreover, the ten-year period matches the STEP process[13] and will send signals for new construction with long-term benefits.[14] For these reasons, the ten-year timeframe for determining costs and benefits as proposed by SPP is just and reasonable.

ITC Great Plains also raises concerns regarding the impacts of SPP's proposal if benefits fail to materialize or exceed projections.[15] ITC Great Plains notes that costs to a zone could be disproportionate if benefits failed to materialize or that a zone could receive a windfall if benefits exceed expectations.[16] These concerns are mitigated by the reconfiguration provisions in the balanced portfolio proposal. Specifically, under certain conditions, SPP will review an approved balanced portfolio for unintended consequences and may recommend reconfiguration of the portfolio.[17] The Tariff provides a non-exhaustive list of conditions that would initiate such a review including "[u]nanticipated decreases in benefits or increases in the costs of upgrades that are part of an approved Balanced Portfolio."[18] After evaluating the potential reconfiguration of an existing

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[13] *See* Tariff Attachment O ("The results from all these sources are collected and reported in the annual SPP Transmission Expansion Plan which gives a ten (10) year projection of transmission changes in the SPP Region").

[14] *See PJM Interconnection, L.L.C.,* 123 FERC ¶ 61,051, at P 79 (2008) (In finding that 15-year planning period was reasonable, the Commission noted "[i]t matches PJM's overall planning horizon and sends signals for new construction that has long term benefits.")

[15] ITC Great Plains Comments at 6.

[16] *Id.*

[17] Tariff, Attachment J, proposed § IV.B.

[18] *Id.* Attachment J, proposed § IV.B.1.ii.

balanced portfolio, SPP will provide a report and recommendation regarding the possible reconfiguration to the Markets and Operations Policy Committee ("MOPC"). MOPC then will consider SPP's report and recommendation and provide them, along with its own report and recommendation, to the SPP Board of Directors for action. This reconfiguring process, involving SPP, stakeholders, and the SPP Board of Directors, will act as a safeguard against disproportionate costs or windfalls to zones should the cost benefit projections not materialize as predicted and thus should address ITC Great Plains' concerns.

In short, the combination of the detailed process set forth in the Tariff for evaluating balanced portfolios, the robust stakeholder process associated with that evaluation, the use of a conservative ten-year time frame for evaluating costs and benefits of a potential balanced portfolio, and the safeguards provided by the reconfiguration provisions "will reasonably offset the uncertainty inherent in determining the economic need for transmission projects that will last for decades."[19]

IV. The Balanced Portfolio Proposal Is Consistent With The Transparency Principle Of Order No. 890 And Does Not Involve Arbitrary Decision-Making By SPP

Contrary to ITC Great Plains, the balanced portfolio process also is consistent with the transparency principle in Order No. 890.[20] "The transparency principle requires transmission providers to reduce to writing and make available the basic methodology, criteria, and processes used to develop transmission plans."[21] As the Commission

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19 *PJM Interconnection, L.L.C.,* 123 FERC ¶ 61,051, at P 39.

20 ITC Great Plains Comments at 6.

21 *Southwest Power Pool, Inc.,* 124 FERC ¶ 61,028, at P 20 (2008).

similarly concluded with regard to SPP's Order No. 890 transmission planning compliance filing, here "SPP's Attachment O adequately reduces to writing and makes available the basic methodology, criteria, and processes used to"[22] evaluate potential balanced portfolios. Specifically, the Tariff (i) provides that SPP will "solicit input from the stakeholders on combinations of potential economic upgrades to be evaluated as potential Balanced Portfolios;"[23] (ii) specifies the voltage requirements for upgrades to be included in a balanced portfolio; (iii) specifies the details of the cost-benefit analysis that will be conducted to determine the upgrades eligible for inclusion in the balanced portfolio, and (iv) specifies the conditions that must be met for a portfolio to be balanced.[24]

Attachment O also provides ample opportunities for stakeholder involvement in the balanced portfolio process. For example, the development of potential balanced portfolios is considered a high priority study.[25] With regard to high priority studies, SPP consults with stakeholders in developing the scope of such studies, solicits input from stakeholders and the RSC regarding sensitivity analyses that should be performed, and for each high priority study, publishes a report including, among other things, the study assumptions, the estimated cost of the upgrades, and the expected economic benefits of

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22 *Id.* at P 25.

23 Tariff, Attachment O, proposed § IV(6)(a).

24 *Id.* Attachment O, proposed §§ IV(6)(b)-(e).

25 *Id.* Attachment O, proposed § IV(3)(b).

the upgrades.[26] Furthermore, SPP will review with the Economic Modeling and Methods Task Force ("EMMTF")[27] the assumptions to be used in assessing potential balanced portfolios, thus providing a forum for stakeholder input and review of the assumptions and a mechanism to obtain pertinent information regarding the assumptions. Simply put, the stakeholder process associated with developing balanced portfolios and details set forth in the Tariff more than meet the transparency requirements of Order No. 890.

ITC Great Plains' concern that it will not be able to review the confidential forced outage rates or other confidential information that form the basis for the modeling of production cost savings from a balanced portfolio[28] is not a reason to change SPP's balanced portfolio process. By definition, production cost models must rely on confidential market participant data. As an independent Regional Transmission Organization ("RTO"), SPP is in the best position to develop this production cost information while maintaining the confidentiality of this information. Production cost savings are the heart of any economic planning analysis. The Commission repeatedly has emphasized that transmission providers must respect the confidentiality of information

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[26] *Id.* Attachment O, proposed §§ IV(3)(d), (f), (g). Furthermore, "[t]he report and related studies and the criteria, assumptions and data underlying the report shall be posted on the SPP website." *Id.* Attachment O, proposed § IV(3)(g).

[27] The Transmission Working Group initially established the EMMTF to advise and assist SPP staff in the determination of the appropriate data, sources, models, timing, application and economic parameters to be used in the development and evaluation of economic options for the next increments of the STEP. The function of the task force also is to review the economic planning process used by SPP staff and to offer proposals for the improvement of the process.

[28] *See* ITC Great Plains Comments at 6.

used in economic planning studies.[29] Keeping such information confidential does not create a planning process lacking transparency. In any event, consistent with Order No. 890, SPP "will make as much transmission planning information publicly available as possible, consistent with protecting the confidentiality of customer information."[30]

Similarly, SPP will not engage in arbitrary decision-making in determining the balanced portfolios to be included in the STEP, as ITC Great Plains suggests.[31] As described above, the opportunity for stakeholder involvement in the establishment of balanced portfolios, as well as stakeholder access to pertinent information, is extensive. Moreover the Tariff provides ample detail regarding the upgrades that will be included in a balanced portfolio and the cost-benefit analysis to be performed. Additionally, as necessary, further information will be provided in the SPP business practices manuals.[32]

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29 *See Cal. Indep. Sys. Operator, Inc.*, 123 FERC ¶ 61,283, at P 87 (2008) ("In Order No. 890-A, the Commission made clear that customers should only be required to provide cost information for transmission and generation facilities as necessary for the transmission provider to perform economic planning studies requested by the customer, and that the transmission provider must maintain the confidentiality of this information."); *U.S. Dept. of Energy – Bonneville Power Admin.,* 124 FERC ¶ 61,054, at P 38 (2008) (same); *Midwest Indep. Sys. Transmission Sys. Operator, Inc.*, 123 FERC ¶ 61,165, at P 30 (2008) (same).

30 *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, 2006-2007 FERC Stats. & Regs., Regs. Preambles ¶ 31,241, at P 476, *order on reh'g*, Order No. 890-A, 2006-2007 FERC Stats. & Regs., Regs. Preambles ¶ 31,261 (2007), *order on reh'g and clarification*, Order No. 890-B, 123 FERC ¶ 61,299 (2008).

31 ITC Great Plains Comments at 6.

32 *See* August 15 Filing at 16-17; *see also Midwest Indep. Transmission Sys. Operator, Inc.*, 123 FERC ¶ 61,164, at P 43 (2008); *see also Cal. Indep. Sys. Operator Corp.*, 122 FERC ¶ 61,271, at P 16 (2008) ("It is appropriate for Business Practice Manuals to contain implementation details, such as instructions, guidelines, examples, and charts.").

This open process, heavy on stakeholder involvement and information dissemination, precludes arbitrary decision-making and should assuage any such concerns.

V. Issues Regarding Trapped Generation Are Properly Addressed In the Stakeholder Process

ITC Great Plains further expresses concern that the balanced portfolio proposal is deficient because under the cost benefit analysis, the overall system benefits of balanced portfolio upgrades may be "devalued" if the releasing of "trapped generation" produces costs to some zones, requiring rebalancing and the imposition of additional costs on benefiting zones.[33] This does not reflect any deficiency in the balanced portfolio proposal as filed. Rather, this issue largely is an issue of how to take account of market-based resources (which are not designated network resources) over the ten-year planning period. In other words, it is not the balanced portfolio process in question, but rather the assumptions to be included in the analysis. Under the balanced portfolio analysis, a zone's production costs may increase when trapped generation is untrapped, thus requiring rebalancing to achieve a balanced portfolio. ITC Great Plains presumably believes these "costs" should not lead to rebalancing.

As described above in section IV, the assumptions to be used in balanced portfolio analyses are the product of a transparent process that provides ample opportunity for stakeholder input, including potential assumptions regarding "trapped" generation. Moreover, SPP currently has a task force addressing "trapped" generation issues, including whether and to what extent market-based resources should be taken into

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33 ITC Great Plains Comments at 5-6.

account in the planning forecasts.[34] These issues are best addressed as they currently are being addressed -- in the stakeholder process -- and should not impede acceptance of the balanced portfolio Tariff revisions as filed.

VI. The Development Of Seams Agreements Between SPP And Its Neighbors And Third-Party Impacts Are Beyond The Scope Of This Proceeding

In its comments, Empire "encourages the Commission to focus on the need for seams agreements between SPP and adjacent systems."[35] This request is beyond the scope of this proceeding. The subject of this proceeding is the establishment of a process for including a balanced portfolio of economic upgrades into the STEP and a regional postage stamp rate design for recovery of costs of such upgrades as approved by the stakeholders. Seams issues are for another day and another proceeding. Likewise, issues relating to third-party impacts caused by changes in SPP topology (whether caused by economic upgrades or otherwise)[36] also are not the subject of this proceeding. They should be addressed separately through seams agreements, but not in this proceeding.

Nevertheless, SPP already has undertaken several steps to address seams with its first-tier neighbors and has made progress in addressing third-party impacts by negotiating seams agreements with other neighboring utilities. For example, on

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34 *See, e.g.,* TGTF [Trapped Generation Task Force] Update: Treatment of Wind in the Development of A Balanced Portfolio of Economic Upgrades, (July 30, 2008) available at: http://www.spp.org/publications/CAWG%20Agenda%20&%20Background%20Material%20-%2007302008.pdf; TGTF Update (August 27, 2008), available at: http://www.spp.org/publications/CAWG%20Agenda%20&%20Background%20-%2008272008.pdf

35 Empire Comments at 7.

36 *Id.* at 4.

September 10, 2008, SPP filed a Joint Operating Agreement with the neighboring transmission system of Associated Electric Cooperative, Inc. ("AECI")[37] that will significantly increase coordination and joint planning between SPP and AECI. SPP has explored adopting similar agreements with other first-tier neighbors, including Entergy.[38]

Additionally, while the current balanced portfolio proposal does not include cross-border projects, for which neighboring entities share the costs, SPP will continue to work with its neighbors to enable such projects to be included in the balanced portfolio.[39] It is important, however, that SPP's balanced portfolio initiative not be hindered while SPP continues to work with other parties to address seams issues. Developing agreements with neighboring utilities should not be a precondition to implementing the balanced portfolio provisions proposed in the August 15 Filing.

Moreover, while SPP can work diligently on its end to explore seams agreements with its neighbors, it cannot force these agreements on other parties nor control the pace at which other parties may consider executing a seams agreement with SPP. In light of the Commission's strong emphasis on economic planning[40] and the overwhelming stakeholder and state commission support of the balanced portfolio proposal,[41] SPP should be able to implement the proposal without delay.

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[37] Submission of Joint Operating Agreement, Docket No. ER08-1516-000 (Sept. 10, 2008).

[38] Empire specifically identified Entergy in its comments. Empire Comments at 5 n.3.

[39] *See* August 15 Filing at 7-8 n.17.

[40] Order No. 890 at P 542.

[41] August 15 Filing at 2-3.

VII. Status Of The Kansas V-Plan And The KETA Project

Finally, ITC Great Plains requests confirmation from SPP as to whether two of its projects are eligible for inclusion in a balanced portfolio.[42] ITC Great Plains refers to these projects as the Kansas V-Plan and the KETA Project. The Kansas V-Plan is the planned construction of the SPP-designated X Plan transmission line from Spearville through Comanche County to Wichita. The KETA Project is the construction of a transmission line from Spearville to Axtell, Nebraska.[43]

The Kansas V-Plan and the KETA Project projects have been considered for inclusion in balanced portfolios from the beginning of the initiative. For example, at the June 2008 Cost Allocation Working Group meeting SPP presented a sensitivity analysis and determined that the Spearville - Knoll - Axtell 345 kV KETA Project had a positive impact on the benefit to cost ratios in the balanced portfolio analysis.[44] The Spearville - Comanche Co. portion of the Kansas V-Plan has been included in all portfolio considerations to date. The Comanche County - Wichita portion of this project was included in a potential balanced portfolio, but it was determined that the portfolio was not the most economic portfolio considered. Therefore, that portfolio and the Comanche

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42 ITC Great Plains Comments at 8. Alternatively, ITC Great Plains suggests that SPP "accelerate its efforts to develop a regional cost allocation mechanism for these EHV projects." *Id.* This alternative suggestion addresses an issue beyond the scope of this proceeding. Moreover, as SPP noted in the August 15 Filing, SPP is evaluating the benefits and costs of constructing an Extra High Voltage Overlay for the SPP Region in a separate initiative. August 15 Filing at 5 n.8.

43 ITC Great Plains Comments at 7.

44 *See* materials *available at* http://www.spp.org/publications/CAWG%20Materials%20-%206-26-08.zip.

County - Wichita portion of the Kansas V-Plan currently are no longer being considered for inclusion in the STEP.

VIII. Conclusion

For the reasons set forth in the August 15 Filing and in this answer, the Commission should accept for filing SPP's balanced portfolio Tariff revisions without condition or delay.

Respectfully submitted,

Carrie L Bumgarner

Barry S. Spector
Wendy N. Reed
Carrie L. Bumgarner

Attorneys for
Southwest Power Pool, Inc.

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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 Washington, D.C., this 22nd day of September, 2008.

Carrie L. Bumgarner

Carrie L. Bumgarner