

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suedeen G. Kelly.

Southwest Power Pool, Inc.

Docket No. ER04-833-002

ORDER ON REHEARING

(Issued March 25, 2005)

1. This order addresses the request for rehearing filed by Redbud Energy LP (Redbud) of the Commission's order issued on October 5, 2004 in this proceeding.¹ In the October 5 Order, the Commission accepted for filing, for a one-year period, a revision (Attachment AA) to Southwest Power Pool, Inc.'s (SPP) open access transmission tariff (OATT), which implemented an experimental transmission service prepayment procedure. On rehearing, Redbud seeks elimination of the prepayment cap. As discussed below, we will deny Redbud's request for rehearing.

2. This order benefits customers by allowing funding at appropriate levels for infrastructure transmission upgrades resulting in increased available transmission capacity for transmission customers in SPP's footprint.

Background

3. Attachment AA allows transmission customers who frequently use short-term transmission service to prepay for such service, on a voluntary basis, in order to fund transmission expansion needed to accommodate short-term service that otherwise would be unavailable due to system constraints. In return for any prepayment made, transmission customers receive a credit for service at the time the funds are used for transmission upgrades. Transmission customers can designate which system upgrades their prepayments will fund. If the requested facilities are determined to provide a benefit, the funds will be allocated for construction based on the need for and benefits to the system.

¹ *Southwest Power Pool, Inc.*, 109 FERC ¶ 61,015 (2004) (October 5 Order).

4. In the October 5 Order, the Commission accepted Attachment AA for filing, for a one-year period beginning from the date of the order. The Commission also directed SPP to submit a status report 10 months after the prepayment program begins, describing the extent of activity under the program, its effect on SPP's short-term transmission service, and various other matters.²

Rehearing Request

5. On rehearing, Redbud states that, while it had previously filed comments generally supporting the adoption of the prepayment procedure, Redbud also sought certain modifications to Attachment AA. Noting that section 1.0 of Attachment AA caps the total individual transmission customer prepayment at the greater of either \$50,000 or the largest monthly aggregate charge paid by a customer for point-to-point transmission services during the prior six months, Redbud argues that the cap will unnecessarily limit transmission system improvements and favor load-serving entities with long-term arrangements, and should therefore be eliminated. Redbud asserts that linking the amount of allowed upgrades to past revenues creates an endless loop, in which constraints keep transmission revenues down and low transmission revenues stop transmission customers from curing constraints. In other words, Redbud argues that the cap will perpetuate the very problem that Attachment AA is intended to address. Redbud adds that the cost of individual upgrades recommended by SPP to support many transactions can easily exceed the limit (i.e., the higher of either \$50,000 or the highest transmission charges paid in the previous six months). Redbud further contends that Attachment AA benefits load-serving entities, but discriminates against merchant generators, like Redbud, that presently cannot access short-term markets but are willing to devote limited resources to expand the system to support short-term sales.

Discussion

6. We will deny Redbud's rehearing request. Although Redbud believes that the cap is overly restrictive, as SPP stated in its answer,³ the facilities limiting short-term

² October 5 Order at P 22. More specifically, we directed SPP to explain: (1) the decision-making process used to identify which projects were originally assigned and which projects were added to Attachment AA; (2) which stakeholders were involved in the decision-making process; (3) which criteria were used, and which stakeholders were involved, in prioritizing projects; (4) which of the 43 original projects assigned to Attachment AA were pursued as a result of the prepayment program; and (5) which projects were designated, and by whom, for system upgrades by entities prepaying for service. This status report is due, we note, some months from now.

³ SPP answer at 3. The October 5 Order allowed SPP's answer. October 5 Order at P 7.

transmission service are relatively inexpensive to upgrade, as opposed to those limiting long-term service which would require considerable expense to upgrade. Removing the cap, moreover, would defeat the very purpose of the prepayment program, which is to allow funding for short-term, rather than long-term, transmission service improvements, while ensuring that prepaying transmission customers receive credits in a short period of time.⁴

7. Moreover, we emphasize that Attachment AA is a one-year experiment, and the cap is necessary to avoid having large outstanding balances at the end of the year. In addition, SPP has committed to evaluate the merits of Attachment AA, including the effect of the cap, at the conclusion. We expect SPP to consider Redbud's concerns as part of that evaluation and further address the effect of the cap if and when SPP seeks renewal of the prepayment procedure.

8. Finally, we add that, because transmission service credits received by a customer for any prepayment may be used for transmission service unrelated to the upgrades constructed, the transmission credits represent a diversion of transmission revenue from the transmission owners. The cap, therefore, was important in obtaining the acquiescence of SPP's transmission owners to Attachment AA, as it limits the amount of revenues that may be diverted.

The Commission orders:

Redbud's request for rehearing is hereby denied, as discussed in the body of this order.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.

⁴ As a practical matter, more expensive projects cannot be refunded within a short period of time.