



FEDERAL ENERGY REGULATORY COMMISSION

October 16, 2008

Docket No. ER08-1419-000

Item No. E-10

Chairman Joseph T. Kelliher

Statement of Chairman Joseph T. Kelliher on Southwest Power Pool, Inc.

"Today the Federal Energy Regulatory Commission acts to approve a filing by the Southwest Power Pool (SPP) to revise the SPP Transmission Expansion Plan to establish a process for a "balanced portfolio" of economic upgrades and recover the cost of such upgrades through a regional postage stamp rate.

I want to commend SPP and the SPP Regional State Committee for submitting this interesting proposal. This filing was developed carefully over a two year period, and enjoys broad support in the region.

One of the most difficult barriers to grid expansion is cost allocation and recovery. For a number of reasons, cost allocation and recovery is much more difficult for transmission projects than other network facilities, such as interstate natural gas pipelines.

Because of the nature of grid operations, expansions can both deliver benefits and impose costs well beyond a particular expansion project. Use of the grid also changes over time, so the benefits of a particular project may adjust.

The Commission has approved regional cost allocation in a number of regions in order to lower barriers to grid investment. A regional cost allocation provides a general rule for cost allocation that will be applied to future transmission projects that meet certain criteria. One advantage of establishing a general rule is that it avoids the need for prolonged litigation to determine the benefits of each particular project.

SPP and the Regional State Committee cut through the Gordian Knot of regional cost allocation problem with this filing. The SPP filing takes a portfolio approach, providing that a regional transmission plan for economic expansions must be both cost beneficial and balanced over a ten year period. The plan will be balanced if the portfolio is cost beneficial for each zone within SPP. The filing provides different approaches to assure balanced portfolios, such as including projects below the 345 kv level to increase benefits to a particular zone. The SPP filing recognizes the difficulty of determining the value of economic upgrades over time, but balances that difficulty with equity considerations.

The Commission has approved different approaches towards cost allocation in different regions of the country. We have done so out of recognition that there are significant differences in the regional power grids, with respect to relative size, ownership, and use. We have not tried to impose a uniform approach with respect to regional cost allocation, and I believe that flexibility has been appropriate.

This is a new approach, and I believe this approach will work well in the SPP region."