125 FERC ¶ 61,054
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

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

ORDER ACCEPTING TARIFF REVISIONS, AS MODIFIED

(Issued October 16, 2008)

1. On August 15, 2008, Southwest Power Pool, Inc. (SPP) filed proposed revisions to its Open Access Transmission Tariff (OATT) to establish a process for including a "balanced portfolio" of economic upgrades in the SPP Transmission Expansion Plan (STEP)[1] and to recover the costs of such upgrades through a regional postage-stamp rate design. The Commission accepts SPP's proposed tariff revisions for filing effective October 17, 2008, as modified as discussed below.

I. **Background**

2. SPP states that over the past two years, the Cost Allocation Working Group (CAWG) of the Regional State Committee (RSC)[2] worked with SPP and its stakeholders

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[1] The STEP includes transmission upgrades relating to transmission service requests, generation interconnection service requests, and satisfaction of reliability criteria, as well as transmission upgrades that provide economic benefits.

[2] The RSC provides state regulatory agency input on regional matters related to the development and operation of bulk electric transmission and is comprised of retail regulatory commissioners from agencies in Arkansas, Kansas, Missouri, New Mexico, Oklahoma, and Texas. Pursuant to the SPP Bylaws, the RSC has primary responsibility for determining regional proposals and for the transition process in certain areas, including "whether license plate or postage stamp rates will be used for the regional access charge." *See* SPP Filing at n.1 (*citing* Southwest Power Pool, Inc., Bylaws section 7.2, *available at* http://www.spp.org/publications/2007_fall_compliance_workshop_spp_bylaws_20060316.pdf); *see also Southwest Power Pool, Inc.*, 106 FERC ¶ 61,110, at P 219 (2004).

to develop cost allocation procedures for economic upgrades. Through these efforts, the CAWG prepared a concept paper outlining a "balanced portfolio" approach for economic upgrades, including a regional postage-stamp rate design for recovery of the costs of such upgrades. On January 28, 2008, the RSC unanimously adopted the concept paper, and subsequently, SPP's Regional Tariff Working Group developed tariff language to implement the balanced portfolio process and rate design. On July 29, 2008, the SPP Board of Directors approved the proposed tariff revisions with the unanimous support of the SPP Members Committee.

II. <u>SPP's Filing</u>

3. In its August 15, 2008 filing, SPP submitted revised tariff sheets to implement the balanced portfolio process along with a chart of the tariff revisions, which also identifies tariff sheets pending in other proceedings.[3] SPP states that to develop a balanced portfolio it will first solicit input from stakeholders on combinations of economic upgrades that should be evaluated for inclusion in potential balanced portfolios. SPP states that, consistent with Order No. 890,[4] this stakeholder input will permit customers to "identify those portions of the transmission system where they have encountered transmission problems due to congestion or [identify] whether they believe upgrades and other investments may be necessary to reduce congestion and to integrate new resources."[5] SPP may also recommend potential upgrades based on its knowledge of the transmission planning, congestion and transmission load relief on its system, and based on input from its market monitors. SPP plans to post the results of the screening analysis on its website and discuss results with stakeholder working groups.[6] Additionally, SPP states that evaluation of potential balanced portfolios will be considered high priority studies, which will be conducted in consultation with the stakeholders. For each such high priority study, SPP will establish and post on its website a report, consistent with the transparency principle of Order No. 890, that will include study input assumptions, the estimated costs of the upgrades included in the high priority study, the expected economic benefits of the upgrades, and the reliability impacts, if any, of the upgrades.[7]

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[3] *See* SPP Filing at Attachment I.

[4] *Preventing Undue Discrimination and Preference in Transmission Serv.*, Order No. 890, 72 Fed. Reg. 12,226 (Mar. 15, 2007), FERC Stats. & Regs. ¶ 31,241 at P 633, *order on reh'g*, Order No. 890-A, 73 Fed. Reg. 2984 (Jan. 16, 2008), FERC Stats. & Regs. ¶ 31,261 (2007); *order on reh'g*, Order No. 890-B, 123 FERC ¶ 61,299 (2008).

[5] SPP Filing at 6 (*citing* Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 547).

[6] *Id.* (*citing* SPP OATT, Attachment O, proposed section IV.5).

[7] *Id.* (*citing* SPP OATT, Attachment O, proposed section IV.3).

In addition, any related studies, and the criteria, assumptions, and data underlying the report will be posted on the SPP website.[8]

4. Under its proposal, SPP will evaluate a group, or portfolio, of economic upgrades to be included in the STEP, rather than evaluate the benefits of individual upgrades. SPP states that its proposed portfolio approach is more likely to result in benefits to the entire system than a project-by-project approach and it will alleviate potential disputes that may arise if the construction of a single project benefits one zone but not others. Additionally, SPP states, the benefits for a single project determined from analyzing the project on an individual basis may change as a result of new economic projects being subsequently added to the STEP. In contrast, by considering a group of economic projects simultaneously, all projects are evaluated at the same time resulting in a more accurate assessment of the benefits of all of the economic upgrades included in the balanced portfolio. In addition, SPP plans to model the upgrades within an approved balanced portfolio in its reliability studies to assess any reliability impacts a balanced portfolio may have on the SPP system and to ensure that the STEP is producing a plan consistent with all applicable reliability criteria.

5. To be included in the initial phase of planning for a balanced portfolio, an economic upgrade must include a 345 kV or higher facility. Lower voltage facilities required to support the integration of 345 kV facilities may be included in a balanced portfolio provided that the costs of the lower voltage facilities do not exceed the cost of the 345 kV or higher facilities. However, an economic upgrade that includes lower voltage facilities—the costs of which exceed the cost of the 345 kV or higher voltage facilities—may be included in the evaluation of a potential balanced portfolio if a Project Sponsor[9] agrees to bear the portion of the costs of the lower voltage facilities that is in excess of the costs of the 345 kV or higher facilities.[10] SPP states that it is restricting these upgrades to 345 kV or higher facilities because higher voltage projects are likely to provide broadly distributed benefits across the SPP footprint. Including lower voltage facilities that are needed to integrate the higher voltage projects allows SPP to ensure that additional costs related to the 345 kV projects are included in the regional rate.

6. Once upgrades to be included in a potential balanced portfolio are identified, SPP will evaluate the costs and benefits of the portfolio to determine whether it is "cost beneficial" and "balanced." If a portfolio is determined to be "cost beneficial" and

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[8] *Id.*

[9] A "Project Sponsor" is one or more entities that voluntarily agree to bear a portion or all of the costs of a Sponsored Upgrade. *See* SPP OATT, section 1.36b.

[10] SPP OATT, Attachment O, proposed section IV.6(b)(ii).

"balanced," and approved through SPP's stakeholder process and by its Board of Directors, the entire cost of the upgrades included in a balanced portfolio will be allocated to the SPP zones on a postage-stamp basis. A portfolio is "cost beneficial" when the sum of the net present value of the benefits of the upgrades equals or exceeds the net present value of the costs of the upgrades over the same ten-year period and assuming that all the upgrades are available at the same time during the ten-year period. A portfolio is "balanced," when for each zone the sum of the net present value of the benefits equals or exceeds the net present value of the costs over the same ten-year time frame. In short, a portfolio is "balanced" when the upgrades are determined to be "cost beneficial" for each SPP zone simultaneously.

7. Under SPP's proposal, the cost component of the cost-benefit analysis will be the net present value of the projected revenue requirements of the potential balanced portfolio allocated to each zone over a ten-year time frame. The benefits component will include the net present value of the projected change in production costs for each zone (adjusted to account for off-system sales revenues and off-system purchase costs)[11] attributable to the portfolio over the same ten-year period. SPP recognizes that there may be additional benefits that could be incorporated into the balanced portfolio process with further development and refinement based on stakeholder input. These benefits include (i) reduction in system losses; (ii) differing environmental impacts; (iii) improvement to capacity margin and operating reserve requirements; (iv) energy, capacity, and ancillary service market facilitation; (v) increased competition in wholesale markets; (vi) reliability enhancement, including storm hardening and black start capability; and (vii) critical infrastructure and homeland security. SPP states that, with stakeholder input, it will continue to evaluate additional benefits and propose any resulting adjustments to the metrics and criteria through tariff amendments.[12] Additionally, SPP states that while its current proposal does not include cross-border projects that could be economically

[11] The adjusted production cost metric is defined as: Adjusted Production Cost = Production Cost – Revenue from Sales + Cost of Purchases. SPP states that adjusting the production costs to account for off-system sales and purchases is appropriate because it correctly accounts for the impacts of interchange transactions into and out of each zone. A zone's production costs might increase under the assumptions of the model, but if the increase in production costs is associated with a corresponding increase in off-system sales, the benefits metric should account for the additional revenue associated with these sales.

[12] SPP Filing at 10 (*citing* SPP OATT, Attachment O, proposed section IV.8(a), (b)).

beneficial, it will work with its neighbors to enable such projects to be included in the balanced portfolios provided that they agree to fund a portion of the upgrades.[13]

8. SPP states that achieving balance can be difficult because the various SPP zones have different levels of transmission robustness that will cause differences in the relative savings that can be achieved in each zone. Therefore, SPP states, its stakeholders developed a mechanism to create balance by establishing a process for reallocating a portion of a zone's zonal revenue requirements for other facilities to the region-wide postage-stamp revenue requirement when necessary to create balance. Under this reallocation mechanism, when a proposed economic upgrade portfolio is not balanced, SPP may include economic upgrades below the 345 kV level to increase the benefits to deficient zones.[14] If the inclusion of such upgrades for lower voltage facilities still does not achieve balance, SPP may transfer part of the zonal revenue requirement for existing or planned facilities (e.g., SPP-planned base plan reliability upgrades and transmission owner-planned facilities) from a deficient zone to the region-wide revenue requirements for reliability upgrades. These transfers in revenue requirements (i.e., "Reallocated Revenue Requirement") will be implemented in increments[15] and are limited to the minimum amount needed to obtain a balanced portfolio. SPP states that the incremental transfer process is appropriate because it protects zones that have net positive benefits in a balanced portfolio from paying for the Reallocated Revenue Requirement of those zones that did not have net positive benefits before realizing any of the benefits of the balanced portfolio. SPP also states that while this method of balancing may not create exact equality in benefits among the zones, it will ensure that all zones benefit from the

[13] *Id.* at 7 n.17.

[14] A deficient zone is a zone in which the costs of the upgrades in the portfolio exceed the benefits.

[15] The initial transfer of the revenue requirements will occur when at least ten percent of the estimated levelized annual transmission revenue requirements for the approved balanced portfolio has been included in the rates under SPP's tariff. On this "trigger date," twenty percent of the Reallocated Revenue Requirement will be transferred to the balanced portfolio Region-Wide Annual Transmission Requirement. On each anniversary of the trigger date in the subsequent four years, an additional twenty percent of the Reallocated Revenue Requirement will be transferred to the balanced portfolio Region-Wide Annual Transmission Revenue Requirement. However, if all of the upgrades in the approved balanced portfolio are completed and included in the rates prior to the fourth anniversary of the trigger date, the remaining Reallocated Revenue Requirement will be transferred prior to the fourth anniversary date. *See* SPP OATT, Attachment J, proposed section IV.A.1.

balanced portfolio and that no zone will be disadvantaged because it is allocated costs for economic upgrades but receives little or no benefit.[16]

9. With regard to approval of balanced portfolios, SPP states that in the first quarter of each year it will present any potential balanced portfolios to the SPP Market and Operation Policy Committee (MOPC), which consists of SPP stakeholders. The MOPC will in turn make recommendations to the SPP Board of Directors on potential balanced portfolios.[17] The SPP Board of Directors must then approve the proposed balanced portfolio for it to be included in the STEP. SPP states that it will post a list of all upgrades to be included in the STEP, including the economic upgrades included in a balanced portfolio, ten days prior to the meeting in which the SPP Board of Directors is expected to act on that list.

10. Once approved, one hundred percent of the revenue requirement for the balanced portfolio (including revenue requirements for economic upgrades in the portfolio as well as any revenue requirements associated with reliability upgrades included in the portfolio to achieve balance) will be recovered through SPP's postage-stamp based Region-Wide Charge.[18] SPP states that the region-wide postage-stamp charge will be assessed to all load, including resident load[19] and transmission customers taking point-to-point transmission service under the SPP OATT.

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[16] SPP Filing at 5.

[17] SPP notes that it is not required to recommend the adoption of a balanced portfolio each year. SPP Filing at 12 (*citing* SPP OATT, Attachment O, proposed section VII 1.b).

[18] The Region-wide Charge is the mechanism by which SPP recovers the Region-wide Annual Transmission Revenue Requirement, which is the sum of the revenue requirements for reliability-based upgrades recovered on a region-wide basis and the revenue requirements associated with balanced portfolios. *See* SPP OATT, proposed sections 1.37a, b.

[19] Resident Load consists of (i) network customers taking Network Integration Service to serve their network load under the tariff; and (ii) transmission owners providing transmission service to (a) bundled retail load for which such transmission owners are not taking network service or firm point-to-point transmission service under the tariff and (b) load being served under grandfathered agreements for which such transmission owners are not taking network service or firm point-to point transmission service under the tariff. *See* SPP OATT, proposed section 41. SPP states that these are the same entities that are currently subject to the base plan charge. *See* SPP Filing at 13.

11. Under certain conditions, SPP will review an approved balanced portfolio for unintended consequences and may recommend reconfiguring a previously-approved balanced portfolio. SPP states that conditions that may lead to such a review include cancellation of an upgrade, unanticipated decreases in benefits or increases in the costs of the upgrades, and significant unanticipated changes to the transmission system. SPP also proposes to true-up the final amount of the Reallocated Revenue Requirement to be transferred to create a balanced portfolio once the upgrades are completed and included in rates. SPP will true-up the final costs based upon the applicable fixed charge rates and the actual costs of each upgrade. SPP states that the benefits estimated at the time the balanced portfolio was approved will not be trued up because benefits may constantly change over the life of the balanced portfolio. In this way, SPP will evaluate the costs and benefits of the balanced portfolio based on actual costs rather than estimates to determine whether the approved balanced portfolio is actually balanced and then make adjustments as necessary to ensure that the portfolio remains balanced.

12. Additionally, SPP states that there may be instances where a proposed network upgrade defers or eliminates the need for a base plan upgrade, a zonal reliability upgrade, a service upgrade, or an economic upgrade included in a previously approved balanced portfolio. In the evaluation of the benefits of a balanced portfolio, SPP proposes to take into account the benefits that would accrue to each zone from such deferrals and displacements.

13. In addition, SPP notes that it is separately evaluating the benefits and costs of constructing an Extra High Voltage (EHV) overlay for the SPP region, the need for which is driven by many factors, including the potential for large renewable resource development, such as wind projects, which could be developed within SPP and neighboring systems and delivered to markets. The EHV overlay initiative is not a part of the instant filing.

14. SPP states that its proposed tariff revisions provide transparency and substantial detail regarding the rules and practices relating to balanced portfolios; however, consistent with Commission precedent, SPP plans to put more detail on the balanced portfolio in its business practices manuals. According to SPP, the Commission has held that transmission providers can "use a combination of tariff language in their OATT and a reference to planning manuals on their websites to satisfy the planning obligations under Order No. 890."[20] Finally, SPP states that following review by stakeholders, including the RSC, its first proposed balanced portfolio could be presented to the SPP

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[20] SPP Filing at 16 (*citing Midwest Indep. Transmission Sys. Operator, Inc.*, 123 FERC ¶ 61,124, at P 43 (2008); *Cal. Indep. Sys. Operator Corp.*, 122 FERC ¶ 61,271, at P 16 (2008)).

Board of Directors and included in the STEP in January 2009. SPP requests an October 17, 2008 effective date for is proposed tariff revisions.

III. Notice of Filing and Responsive Pleadings

15. Notice of the SPP's filing was published in the *Federal Register*, 73 Fed. Reg. 50,807 (2008), with interventions and protests due on or before September 5, 2008. Xcel Energy, Inc., Southwest Industrial Customer Coalition, Lafayette Utilities System, Western Farmers Electric Cooperative, and Dogwood Energy, LLC filed timely motions to intervene. The Oklahoma Municipal Power Authority, the Missouri Joint Municipal Electric Utility Commission, and the West Texas Municipal Power Agency (collectively, TDU Intervenors) jointly filed a motion to intervene and supporting comments. The Missouri Public Service Commission (Missouri PSC) filed a notice of intervention on September 5, 2008, and an amended notice including comments on September 11, 2008. The Empire District Electric Company (Empire) and ITC Great Plains, LLC (ITC) filed motions to intervene and comments. Golden Spread Electric Cooperative, Inc. (Golden Spread), Oklahoma Gas and Electric Company, and the Kansas Corporation Commission filed motions to intervene out of time. On September 22, 2008, SPP filed an answer, and it filed an erratum to its answer on September 29, 2008. SPP also filed a supplement to its answer on October 14, 2008.

IV. Discussion

A. Procedural Matters

16. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2008), the notice of intervention and the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R § 385.214(d) (2008), the Commission will grant Golden Spread's, Oklahoma Gas and Electric Company's and the Kansas Corporation Commission's late-filed motions to intervene given their interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2008), prohibits answers unless otherwise ordered by the decisional authority. We will accept SPP's answer, as corrected, because it has provided information that assisted us in our decision-making process. We are not persuaded to accept SPP's October 14, 2008 supplement to its answer and will, therefore, reject it.

B. Substantive Matters

17. The Commission accepts SPP's proposed tariff revisions for filing effective October 17, 2008, as modified as discussed below. As a preliminary matter, we commend SPP and its stakeholders for the significant effort they have put forth to

develop a process to enhance transmission in the SPP region. The two-year long process preceding SPP's filing was an open and collaborative process with active participation by state regulatory agencies, transmission owners, transmission customers, independent power producers, power marketers and other stakeholders.[21] The proposal, which has received nearly universal stakeholder support, is an important step in promoting investment in new transmission facilities to reduce congestion, integrating efficient new resources and accommodating new or growing loads.[22] While most commenters express support for the balanced portfolio proposal, Empire and ITC condition their support of the proposal based on clarification and/or modifications as discussed below.

1. Seams Agreements

a. Comments

18. Empire states that it and many other SPP members are concerned that, without just and reasonable joint operating and planning agreements (seams agreements) among SPP and its adjacent transmission providers (e.g., Entergy) it will be difficult for a portfolio of transmission projects within the SPP region to be "balanced" (i.e., provide net benefits to all zones). According to Empire, because the benefits of a portfolio will to some extent fall outside the SPP footprint and, at least in the early years, most of the projects identified for potential balanced portfolios will be projects that allow increased transfers from west-to-east and north-to-south, both within and beyond the SPP borders, it may be difficult to identify a balanced portfolio because the resulting benefits are not confined to the SPP region. Empire argues that seams agreements would make it possible to address the full range of effects that a balanced portfolio will likely have, including any effects on adjacent transmission systems, and would make it possible to avoid situations where adjacent systems receive benefits at no cost or incur unexpected impacts. Empire

[21] *See* Missouri PSC Comments at 2-4 (describing SPP's stakeholder process used to develop the balanced portfolio proposal).

[22] *See* TDU Intervenors Comments at 2 ("As SPP notes, the proposal has nearly universal support."); Empire Comments at 3 ("The Balanced Portfolio concept was thoroughly vetted with SPP stakeholders, as were the tariff changes deemed necessary to implement that concept."); ITC Comments at 3 ("The proposed postage stamp rate design is critical to the development of a robust transmission grid that will support competitive wholesale markets, access new generation, facilitate demand response, reduce transmission line losses and serve growing load."). ITC notes that as of April 4, 2008, SPP had 106 active generator interconnection requests for a total of 26,811 MW of which 94 are for wind generation plants for a total of 24,473 MW. ITC Comments at 3 (*citing Interconnection Queuing Practices,* Docket No. AD08-2-000, Status Report of Southwest Power Pool, Inc. in Response to Order on Technical Conference (April 21, 2008)).

encourages the Commission to focus on the need for seams agreements between SPP and adjacent systems and suggests that the Commission convene a technical conference to develop additional information on the steps that can and should be taken to bring those agreements into existence as soon as practicable.

b. Answer

19. SPP contends that Empire's request for the Commission to focus on the need for seams agreements between SPP and adjacent systems is beyond the scope of the proceeding and should be addressed at a later date. However, SPP notes that it has undertaken several steps to address seams with its first-tier neighbors. For example, SPP states, on September 10, 2008, it filed a Joint Operating Agreement to coordinate with the neighboring transmission system of Associated Electric Cooperative, Inc.[23] SPP also contends that it has explored adopting similar agreements with other first-tier neighbors, including Entergy,[24] and it will continue to work with its neighbors to enable cross-border projects, for which neighboring entities share the costs, to be included in a balanced portfolio.

20. SPP notes that while it 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 seams agreements with SPP. Therefore, SPP contends that developing seams agreements should not be a precondition to implementing the balanced portfolio proposal, particularly in light of the Commission's strong emphasis on economic planning[25] and the overwhelming stakeholder and state commission support the proposal has received.

c. Commission Determination

21. We find that requiring seams agreements among SPP and adjacent transmission system operators is not necessary as a pre-condition to finding SPP's proposal just and reasonable in the instant proceeding. Under SPP's proposal, no zone will be worse off as a result of the adoption of a balanced portfolio. Moreover, the provision of SPP's OATT addressing inter-regional coordination agreements provides that "SPP shall continue its efforts to formalize and improve seams agreements with its neighbors and affected systems to facilitate inter-regional and interconnection wide transmission planning and

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[23] SPP Answer at 12 (*citing* Submission of Operating Agreement, Docket No. ER08-1516-000 (Sept. 10, 2008)).

[24] *Id.*

[25] *Id.* (*citing* Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 542).

expansion,"[26] and in the instant application, SPP commits to work with its neighbors to negotiate arrangements that enable cross-border projects to be included in balanced portfolios. The Commission encourages this effort and agrees that regions should coordinate to facilitate the consideration of resource options that span the regions. We note that as part of compliance with Order No. 890, we have directed staff to convene regional technical conferences in 2009 to determine the progress and benefits that have been realized by each transmission provider's transmission planning process, obtain customer and other stakeholder input, and discuss any areas that may need improvement.[27] The Commission encourages Empire to participate in that process to raise and address any remaining concerns it may have regarding SPP's planning process. Accordingly, we deny Empire's request to convene a technical conference to address such issues in this proceeding.

2. Third-Party Effects

a. Comments

22. Empire notes that much of the detail regarding the calculation of costs will be detailed in future business practice manuals. Empire argues that cost calculation details should be known before a balanced portfolio is approved and that third-party impacts should be addressed in the calculation of costs. Empire states that in some situations, changes in SPP system topology—whether due to the addition of balanced portfolio upgrades or otherwise—can affect the direction and/or magnitude of unscheduled power (loop) flows on adjacent systems.[28] According to Empire, if these changes cause security limit violations on an adjacent system, the affected utility may seek to recover the costs of upgrades to its system from the bordering SPP transmission owner or zone. Empire asserts that if an SPP transmission owner or zone is required to fund these third-party upgrades, the costs of these upgrades should be factored into the balanced portfolio cost-benefit analysis. Empire argues that costs arising from third-party impacts should be included in the cost-benefit calculation as "other factors affecting the revenue requirement associated with the economic upgrade" under section IV.6(c)(iii) of SPP's proposed Attachment O.[29]

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[26] *See* SPP OATT, Addendum 1 to Attachment O.

[27] *Southwest Power Pool*, 124 FERC ¶ 61,028, at P 11 (2008).

[28] Empire Comments at 4.

[29] *Id.* at 5 (*citing* SPP Filing at 8 n.20). Proposed section IV.6(c)(iii) provides as follows: The revenue requirement for each economic upgrade will include the costs necessary to support the economic upgrade, including operation and maintenance

(continued…)

23. Empire states that "in whatever stakeholder process SPP convenes to develop the detailed business practices/manuals for Balanced Portfolios, [it] will advocate for express recognition of potential third-party impacts in the cost-benefit analysis."[30] While Empire states that it has no reason to expect that SPP or any other transmission owner, zone, or stakeholder would actively resist the inclusion of provisions addressing third-party impacts in the detailed business practices, its support for SPP's proposal is premised on the expectation that potential third-party impacts can and will be addressed in the business practices.[31]

b. Answer

24. In response, SPP states that issues relating to third-party impacts caused by changes in SPP topology, whether caused by economic upgrades or otherwise, are not the subject of this proceeding and should be addressed separately through seams agreements. SPP also notes that it has made progress in addressing third-party impacts through its negotiations to establish seams agreements (as discussed above).

c. Commission Determination

25. The Commission agrees with Empire that it is important to understand and account for additional costs to an SPP transmission owner or zone due to third-party impacts, if any, of a balanced portfolio. SPP's OATT seems to allow for this consideration given its proposed section IV.6(c)(iii), which provides that "[t]he revenue requirement for each economic upgrade will include … *any other factors affecting the revenue requirement associated with the economic upgrade*."[32] However, SPP in its answer indicates that this issue should be addressed in seams agreements. We disagree with SPP and find that any specific costs that are incurred by transmission owners as a result of third-party impacts due to balanced portfolio economic upgrades should be included in the cost-benefit analysis. We direct SPP to amend its tariff language, within sixty days of the date of this order, clarifying that costs incurred by a transmission owner or zone due to third party impacts are included among the "other factors affecting the revenue requirement associated with the economic upgrade."

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expenses, depreciation, property and payroll taxes, income taxes, if applicable, return on investment, and any other factors affecting the revenue requirement associated with the economic upgrade.

[30] *Id.* at 5-6.

[31] *See id.* at 6.

[32] *See* SPP OATT, Attachment O, proposed section IV.6(c)(iii) (emphasis added).

3. Cost-Benefit Analysis

a. Comments

26. ITC asserts that the cost-benefit test should be modified to include additional benefits and to reflect the long-lived character of transmission assets. ITC states that SPP should incorporate some of the additional benefit measures that SPP recognizes could exist into its cost-benefit analysis by a date certain so that these additional metrics will be used for balanced portfolios after SPP's first balanced portfolio planned for January 2009. ITC states that, at a minimum, the benefits of an economic upgrade should include the reduction in system losses (i.e., energy loss savings and capacity loss savings) and improvements to capacity margin and operating reserve requirements. ITC also states that SPP's calculation of the benefits of an economic upgrade must capture the value of that upgrade in facilitating the entry of renewable generation into the market and assisting in compliance with renewable portfolio standards. ITC notes that it is not clear whether SPP's reference to "differing environmental impacts" is meant to encompass this latter benefits measure. ITC argues that by not including these other benefit measures, SPP's proposal effectively requires benefits to exceed costs by a factor or two or more, i.e., benefits must be more than double the costs.

27. Additionally, ITC contends that limiting the period for calculating the projected costs and benefits of a project to the first ten years of that project's life cannot provide truly representative results because these types of transmission projects generally have greater cost effects in the early years with useful lives of 40 years or longer. ITC argues that failing to use a longer period will understate benefits, which are likely to rise as time goes on.

28. Next, ITC argues that SPP's proposed zone-by-zone cost-benefit analysis suffers from a number of defects. First, ITC states, no matter how beneficial a portfolio of projects may be for the region as a whole, if a single SPP zone would not receive adjusted production cost-benefits that exceed the costs over the first ten years, the product is essentially "devalued" unless SPP conducts a rebalancing process. By way of example, ITC states, if a portfolio of projects would relieve a constraint and allow "trapped" generation to move to other zones, while the other zones may benefit, the host generation zone is treated under SPP's proposal as worse off.[33] ITC states that in such an instance costs may have to be allocated away from the deficient zone for the balanced portfolio to work. Second, ITC argues that the need for a net benefit in each zone will necessitate a complex and arbitrary set of decisions by SPP as to what projects to include initially, and what to add or subtract to achieve balance. Third, ITC states that the identification of deficient zones is based on benefit projections that may or may not materialize; however,

[33] ITC Comments at 6.

the transfer of portions of revenue requirements from those zones will impose real costs on other zones. ITC argues that if the benefits fail to materialize, the costs will be disproportionate and if the actual benefits exceed projected benefits, there could be windfalls in the deficient zones. Finally, ITC argues that contrary to the transparency principle of Order No. 890, it will not be possible to review the system design software ("Promod") results to check the consistency of the assumptions that drive the adjusted production cost-benefit metrics (e.g., forced outage rates).

b. Answer

29. In response to ITC's suggestion that the cost-benefit test should be modified to include additional benefits, SPP argues that such modification is unnecessary because, as the Missouri PSC points out in its comments other benefits were considered but adjusted production costs were the only metrics that are readily available for application at this time.[34] SPP states that it has committed to "continue to evaluate and explore with stakeholders via that transmission planning process any additional metrics and criteria which have quantifiable economic effects" and to amend its OATT to include those metrics as appropriate.[35] SPP adds that not only is ITC's suggestion unnecessary but it could hinder the opportunity for stakeholder input into the determination of additional benefits metrics through the stakeholder process.

30. With regard to ITC's concerns regarding the use of a ten-year time frame for cost-benefits analyses, SPP states that while it realizes that benefits will likely increase compared to costs over time, the ten-year period conservatively balances the inevitable uncertainty in determining forecasted benefits with the need to consider future benefits. Although considering only the first ten years will produce somewhat conservative estimates of the total benefits of a facility, it will also ameliorate the uncertainty inherent in any long-term projection.[36] SPP argues that this conservative approach better ensures that ratepayers who pay for the economic upgrades also will benefit from them. SPP adds that the ten-year period matches the STEP process and will send signals for new construction with long-term benefits.

31. SPP addresses each of the areas ITC considers to be defects of the proposed zone-by-zone cost-benefit analysis. First, SPP states that ITC's concern regarding "trapped

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[34] SPP Answer at 3 (*citing* Missouri PSC Comments at 3).

[35] *Id.* at 2-3 (*citing* SPP OATT, Attachment O, proposed section IV(8).

[36] *Id.* at 4 (*citing Midwest Indep. Transmission Sys. Operator, Inc.*, 118 FERC ¶ 61,209, at P 156 (2007); *PJM Interconnection, L.L.C.*, 123 FERC ¶ 61,051, at P 79 (2008)).

generation" does not reflect a deficiency in the proposed balanced portfolio proposal but is largely 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, SPP states, it is not the balanced portfolio process in question, but rather the assumptions to be included in the analysis. SPP explains that 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. SPP argues that while ITC presumably believes these "costs" should not lead to rebalancing, 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. Additionally, SPP states that it currently has a task force addressing "trapped" generation issues and these issues are best addressed as they currently are being addressed—in the stakeholder process.[37]

32. With regard to ITC's claim that the need for a net benefit in each zone will require SPP to engage in a complex and arbitrary set of decisions, SPP argues that the balanced portfolio stakeholder process and the details set forth in its OATT are consistent with the transparency principle of Order No. 890. Specifically, SPP states, its proposed tariff revisions provide that SPP will solicit input from the stakeholders on combinations of potential economic upgrades to be evaluated as potential balanced portfolios, specify the voltage requirements for upgrades to be included in a balanced portfolio and the details of the cost-benefit analysis that will be conducted to determine the upgrades eligible for inclusion in the balanced portfolio, and specify the conditions that must be met for a portfolio to be balanced.[38] SPP also states that stakeholders will have additional opportunities to participate in the development of balanced portfolios under the high

[37] *Id.* at 10-11 (referencing 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%20 Material%20-%2007302008.pdf; TGTF Update (August 27, 2008), available at: http://www.spp.org/publications/CAWG%20Agenda%20&%20Background%20-%2008272008.pdf).

[38] *Id.* at 7 (*citing* SPP OATT, Attachment O, proposed sections IV(6)(a),(b)-(e).

priority study provisions of the SPP OATT[39] and through SPP's Economic Modeling and Methods Task Force (EMMTF).[40]

33. Responding to ITC's concerns that the forecasted benefits may fail to materialize or exceed projections, SPP states that these concerns are mitigated by the reconfiguration provisions in the balanced portfolio proposal under which SPP will review an approved balanced portfolio for unintended consequences and may recommend reconfiguration of the portfolio.[41] SPP states that the OATT provides a nonexhaustive list of conditions that would initiate such a review including unanticipated decreases in benefits or increases in the costs of upgrades that are part of an approved balanced portfolio.[42] SPP states that any suggestions for reconfigurations will be submitted to the MOPC and, if recommended by the MOPC, to the SPP Board of Directors for action.

34. SPP states that ITC's 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 is no reason to change SPP's balanced portfolio process because, by definition, production cost models must rely on confidential market participant data. SPP argues that 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. SPP argues that production cost savings are the heart of any economic planning analysis and that the Commission has emphasized that transmission providers must respect the confidentiality of information used in economic planning studies.[43] In any event, SPP states, consistent

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[39] *Id.* at 7-8 (*citing* SPP OATT, Attachment O, proposed sections IV(3)(b),(d),(f)),(g)).

[40] SPP Answer at 8. SPP states that 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. *Id.*

[41] *Id.* at 5 (*citing* SPP OATT, Attachment J, proposed sections IV.B).

[42] *Id.* (*citing* SPP OATT, Attachment J, proposed sections IV.B.1.ii).

[43] *Id.* 8-9 (*citing Cal. Indep. Sys. Operator, Inc.*, 123 FERC ¶ 61,283, at P 87 (2008); *U.S. Dept. of Energy – Bonneville Power Admin.*, 124 FERC ¶ 61,054, at P 38 (2008); *Midwest Indep. Sys. Transmission Sys. Operator, Inc.*, 123 FERC ¶ 61,165, at P 30 (2008)).

with Order No. 890, it will make as much transmission planning information publicly available as possible, consistent with protecting the confidentiality of customer information.[44]

c. Commission Determination

35. We disagree with ITC that its requested conditions regarding the cost-benefit analysis are warranted at this time. First, with regard to the inclusion of additional benefits measures, as the Missouri PSC points out, "[w]hile other benefits were considered, adjusted production costs were the only metrics that are readily available for application at this time. The 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."[45] Accordingly, SPP and its stakeholders found adjusted production costs to be the only benefit that could be included in the cost-benefit analysis initially but have committed to evaluating and exploring additional metrics and criteria which have quantifiable economic effects and to propose tariff amendments to incorporate any subsequent adjustment to the metrics and criteria for evaluating potential balanced portfolios. Moreover, ITC provides no concrete proposal for quantifying additional benefits to include in evaluation of balanced portfolios now or in the future. Accordingly, we will deny its request that we establish a date certain by which SPP is required to incorporate additional benefits metrics.

36. Next, we find SPP's ten-year horizon for the analysis of costs and benefits under a balanced portfolio to be consistent with the overall ten-year planning horizon SPP uses in planning its transmission system and reflects a reasonable balance between the horizon for estimating benefits and the accuracy of those benefits.[46] As the Commission has previously found, there is a trade-off between the horizon for estimating benefits and the accuracy of those estimates; however, an economic planning process that includes a clear, conservative cost-benefit formula and has a robust stakeholder process can mitigate the

[44] *Id.* (*citing* Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 476).

[45] Missouri PSC Comments at 3.

[46] *See PJM Interconnection, L.L.C.*, 123 FERC ¶ 61,051, at P 79 (2008), *reh'g pending* (rejecting a request to modify a proposed 15-year planning period for PJM's proposed Regional Economic Transmission Planning process, finding the 15-year period to be "a reasonable period of time for PJM's planning horizon in order to calculate the costs and benefits of economic projects that will remain in its system for decades" and that "[i]t matches PJM's overall planning horizon and sends signals for new construction that has long-term benefits.").

uncertainty of system-condition predictions.[47] Here, SPP proposes a ten-year horizon for its cost-benefit analysis, based on a conservative 1:1 cost-benefit threshold.

37. With regard to ITC's concern that a zone may be "devalued" it is unclear what ITC's concern is because, as ITC recognizes, SPP will conduct a reallocation (rebalancing) process to ensure that the potential portfolio is balanced by either including facilities below 345 kV or transferring part of the zonal revenue requirement from a deficient zone to the region-wide revenue requirements for reliability upgrades. In addition, under certain conditions, including cancellation of an upgrade or unanticipated decreases in benefits or increases in costs, SPP will review a previously-approved balanced portfolio and may recommend reconfiguring the portfolio. This reconfiguration process addresses ITC's concern that the identification of deficient zones is based on benefit projections that may or may not materialize. The Commission also finds unfounded ITC's concerns regarding SPP making "complex and arbitrary" decisions regarding what projects to include initially or to add or subtract to achieve balance. SPP's proposed tariff revisions include detail on its stakeholder process through which SPP's stakeholders will have an active role in determining what upgrades to include in a balanced portfolio and how to achieve balance.[48] However, we agree with ITC that it is important for market participants to be able to review the system design software results to check the application of the assumptions in creating the adjusted production cost-benefit metrics. Accordingly, we direct SPP to create a mechanism that allows for market participants such as ITC to review the system design software, subject to signing confidentiality agreements or other needed arrangements to protect sensitive information. We note that in Order No. 890, the Commission required "transmission providers to disclose to all customers and other stakeholders the basic criteria, assumptions, and data that underlie their transmission system plans . . . [and] that this information should enable customers, other stakeholders, or an independent third-party to replicate the results of planning studies."[49] Accordingly, we direct SPP to file, within sixty days of the date of this order, revised tariff sheets with provisions ensuring that system design software results needed for stakeholders to verify the application of the assumptions in creating the adjusted production cost-benefit metrics will be made available subject to the signing of confidentiality agreements or other needed arrangements to protect sensitive information.

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[47] *Id.* (finding that PJM's proposal mitigated the uncertainty of predicting costs and benefits by applying a conservative formula with a minimum benefit-cost threshold of 1.25:1, thereby ensuring that project benefits are greater than costs).

[48] *See* SPP OATT, Attachment O, proposed sections IV.4, 5, 6.

[49] Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 471.

4. EHV Overlay and Cross-Border Transmission Facilities

a. Comments

38. ITC states that it is unclear whether EHV overlay projects are eligible for inclusion in the proposed balanced portfolio proposal. Specifically, ITC states that the KETA and the Kansas V-Plan transmission line projects,[50] included in the STEP in October 2007, may be EHV overlay transmission facilities. Additionally, ITC states that the KETA project runs to a point in Nebraska that is not currently part of SPP but is expected to become a part of SPP in 2009. ITC notes that based on discussions with SPP staff, in light of SPP's imminent expansion into Nebraska the KETA project will not be excluded from evaluation for inclusion in a balanced portfolio.[51] ITC seeks confirmation of this determination. ITC states that because final decisions have not been made on the EHV overlay, it is difficult to determine what projects will or will not be included in the EHV overlay. Noting that SPP's filing indicates that the EHV overlay initiative is not part of its filing and that SPP's proposal does not include cross-border projects, ITC states that it is not certain whether these two projects are eligible for inclusion in a balanced portfolio proposal. ITC argues that because these EHV projects are important to interconnection of wind resources and have been approved by state organizations, it urges SPP either to confirm that EHV overlay projects are eligible for inclusion in the balanced portfolio, or accelerate its efforts to develop a regional cost allocation mechanism for these EHV projects.

b. Answer

39. SPP confirms that the Kansas V-Plan project and the KETA Project have been considered for inclusion in balanced portfolios from the beginning of the initiative. For example, SPP states, at the June 2008 CAWG 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.[52] In addition, SPP asserts that the Spearville – Comanche County portion of the Kansas V-Plan has been included in all portfolio considerations to date. SPP notes that the Comanche County – Wichita portion of this project was included in a potential balanced

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[50] The KETA Project involves construction of a transmission line from Spearville, Kansas to Axtell, Nebraska. The Kanvas V-Plan involves construction of the northeast segment of the SPP-designated X Plan transmission line from Spearville through Comanche County to Wichita. *See* ITC Comments at 7.

[51] *Id.* at 8 n.11.

[52] SPP Answer at 13.

portfolio, but it was determined that the portfolio was not the most economic portfolio considered. Therefore, SPP states, that portfolio and the Comanche County – Wichita portion of the Kansas V-Plan are no longer being considered for inclusion in a balanced portfolio.

c. Commission Determination

40. The Commission finds that SPP has answered ITC's questions regarding the status of Kansas V-Plan and KETA projects for consideration under a balanced portfolio. In its answer SPP confirms that both projects were specifically considered for inclusion in a balanced portfolio. Accordingly, we find SPP has adequately responded to ITC's concern on this issue.

41. For all the reasons discussed above, the Commission accepts SPP's proposed tariff revisions for filing effective October 17, 2008, as requested. We note that acceptance of SPP's proposed tariff revisions in the instant proceeding does not affect any tariff revision pending in any other proceeding as detailed on SPP's Attachment I. Those revisions will be addressed in the assigned dockets, and SPP will be directed to make compliance filings as necessary to incorporate any new changes.

The Commission orders:

(A) SPP's tariff revisions are accepted for filing, effective October 17, 2008, as modified as discussed in the body of this order.

(B) SPP is hereby directed to submit a compliance tariff filing, within sixty days of the date of this order, with provisions ensuring that system design software results needed for stakeholders to verify the application of the assumptions in creating the adjusted production cost-benefit metrics will be made available, and clarifying that costs incurred by transmission owners or zones due to third-party impacts are included among the factors affecting the revenue requirement associated with the economic upgrade, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.