

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Southwest Power Pool, Inc.

Docket No. ER07-345-000

ORDER REJECTING TARIFF REVISIONS

(Issued February 16, 2007)

1. On December 20, 2006, the Southwest Power Pool, Inc. (SPP) filed revisions to Attachment AE¹ in its open access transmission tariff (OATT or tariff) relating to its real-time imbalance service market (December 20 Filing). These revisions address SPP's day-ahead reliability analysis of potential constraints, and how the constraints identified in the analysis may be resolved in real time by market redispatch. As discussed below, the Commission rejects these revisions.

I. Background

2. SPP is a regional transmission organization (RTO).² In 2004, the Commission accepted SPP's commitment to develop an imbalance market, including implementation of a real-time, offer-based energy market that will be used to calculate the price of imbalance energy.³ The Commission also required SPP to provide market monitoring and market power mitigation plans.⁴

¹ Attachment AE sets forth the scheduling and dispatching responsibilities of the transmission provider and market participants, and establishes various procedures for SPP's energy imbalance service market (imbalance market), including operation, pricing, and billing.

² See *Southwest Power Pool, Inc.*, 109 FERC ¶ 61,009 (2004), *order on reh'g*, 110 FERC ¶ 61,137 (2005).

³ *Southwest Power Pool, Inc.*, 106 FERC ¶ 61,110 at P 134, *order on reh'g*, 109 FERC ¶ 61,010 (2004).

⁴ *Id.* at P 173.

3. On June 15, 2005, SPP submitted proposed tariff revisions intended to implement an imbalance market and establish a market monitoring and market power mitigation plan (June 15 Filing). The Commission rejected the June 15 Filing as inadequate and provided guidance concerning: (1) reliable and stable market operations; (2) market-based rates in the new market; and (3) mitigation and monitoring issues.⁵

4. On January 4, 2006, SPP resubmitted proposed revisions to its OATT to implement SPP's imbalance market and establish market monitoring and market power mitigation plans (January 4 Filing). With these revisions, SPP intended to implement a real-time energy imbalance market, based on a least cost bid-based security constrained economic dispatch and locational marginal pricing. On March 20, 2006, the Commission found that the January 4 Filing was missing important elements and assurances regarding reliable and stable operation and therefore directed submission of the missing elements and additional readiness and market startup safeguards.⁶ The Commission accepted and suspended SPP's filing and permitted it to become effective October 1, 2006, subject to further orders and directed SPP to submit a compliance filing.⁷

5. On May 19, 2006, SPP submitted a compliance filing that contained proposed tariff revisions pursuant to the *SPP Market Order* (May 19 Filing). The May 19 Filing also included newly proposed market provisions, filed under section 205 of the Federal Power Act (FPA),⁸ a standard market participant agreement and a proposal for allocating the costs of energy from operating reserves. In addition, SPP filed revisions to section 2.4 of Attachment AE that proposed to apply two analyses for evaluating ancillary service and response plans: a supply adequacy analysis and a simultaneous feasibility

⁵ *Southwest Power Pool, Inc.*, 112 FERC ¶ 61,303, *reh'g denied*, 113 FERC ¶ 61,115 (2005).

⁶ For example, the Commission determined that a simultaneous feasibility analysis of day-ahead resource plans is necessary to ensure that SPP will not rely on emergency curtailments to manage infeasible situations on an after-the-fact-basis. Therefore, the Commission directed that SPP modify its tariff to clarify that it will undertake a simultaneous feasibility analysis in evaluating the day-ahead resource plans and modify the submission requirements for resource plans so that the generator-load pairs are mapped to the nodes of the transmission system. *See Southwest Power Pool, Inc.*, 114 FERC ¶ 61,289 at P 41 (*SPP Market Order*), *order on reh'g*, 116 FERC ¶ 61,289 (2006).

⁷ *Id.*

⁸ 16 U.S.C § 824d (2000).

analysis. On July 20, 2006, the Commission accepted SPP's newly proposed market provisions and compliance filing in part, as modified, and rejected in part, to become effective on October 1, 2006.⁹

II. Description of Filing

6. In the instant filing, SPP proposes new revisions to those portions of its OATT relating to its imbalance market. SPP states that these revisions were developed through its stakeholder process, with all entities having an interest participating in the development and approval of these revisions, including approval by its Board of Directors.

7. Specifically, SPP states that it is revising section 2.4.2(b)(ii) of Attachment AE to clarify that it will assess on a day-ahead basis whether the submitted resource plans and applicable energy schedules can be implemented reliably. In addition, SPP states that, if the day-ahead analysis indicates that not all constraints identified in the simultaneous feasibility analysis may be resolved in real time by market redispatch, it will post notification on its website identifying the projected constraint and providing that Transmission Loading Relief (TLR) may be necessary to resolve the issues in real time. In its filing, SPP also identifies other modifications to section 2.4.3 of Attachment AE and deletion of sections 2.4.2(b)(iii) and 2.4.3(c) of Attachment AE.

8. SPP explains that it also is proposing to delete section 2.4.3(c) -- which permits SPP to instruct market participants to commit or de-commit resources to alleviate constraints revealed by the day-ahead simultaneous feasibility analysis -- because there would be no instructions to revise the operating plan to alleviate constraint violations. SPP proposes these changes to prevent market participants from incurring costs to address what may be a transient, non-representative indication of market conditions. SPP asserts that it retains all necessary authority to direct an adjustment to resource commitment and operating plans, when clearly warranted by non-transient day-ahead market conditions.

⁹ More specifically, the Commission-approved revisions to section 2.4.3 of Attachment AE provided that SPP will have the authority to direct a market participant to (1) commit or de-commit a resource in order to ensure that there are sufficient resources, but not an excess of resources, to meet the market participant's obligations and (2) change its resource plan to alleviate constraint violations identified through the simultaneous feasibility analysis. See *Southwest Power Pool, Inc.*, 116 FERC ¶ 61,053 (2006) (*SPP Compliance Order*).

III. Notice of Filings and Responsive Pleadings

9. Notice of SPP's December 20 Filing was published in the *Federal Register*, 72 Fed. Reg. 339 (2007) with comments, protests, and interventions due on or before January 10, 2007. A timely motion to intervene was filed by Missouri Joint Municipal Electric Utility Commission, Oklahoma Municipal Power Authority and West Texas Municipal Power Agency (collectively, TDU Intervenors). A timely motion to intervene and protest was filed by Golden Spread Electric Cooperative, Inc. (Golden Spread). An answer in response to Golden Spread was filed by SPP on January 25, 2007.

IV. Discussion

A. Procedural Matters

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2006), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

11. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2006), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We are not persuaded to accept SPP's answer and will, therefore, reject it.

B. Proposed Changes

1. Attachment AE, Section 2, of SPP's OATT

12. Currently, a day ahead of the operating day, market participants are required to submit resource plans and load forecasts for each hour of the real time market to SPP.¹⁰ A market participant's resource plan must provide a sufficient amount of available energy to meet all of that market participant's energy obligations through any combination of: (1) scheduling energy from third parties, (2) planned operating levels of self-dispatched resources as identified in the resource plan, or (3) by making its resources available to SPP for dispatch with sufficient dispatchable operating range so that in aggregate, they are capable of producing sufficient energy to meet the market participant's energy obligations.

13. Later that same day, SPP will review the operating capacity scheduled in each market participant's resource plan using a simultaneous feasibility analysis to ensure that the market participant's operating capacity is deliverable in each hour of the next day,

¹⁰ See Attachment AE, section 2.2.

real time market.¹¹ To verify that the market participants' submitted resource plans and applicable energy schedules can be implemented reliably, SPP will determine if all constraints identified in the simultaneous feasibility analysis can be resolved through (1) the simulated dispatch of dispatchable resources only, and (2) simulation of potential impacts that a TLR may have on the constraints. If the constraints identified can be resolved, SPP will post a notification on its website identifying the projected constraint and that TLR may be necessary to resolve the constraint in real time market.

14. If SPP determines through the simultaneous feasibility analysis that the market participant's submitted resource plan cannot be implemented reliably, SPP will immediately notify the affected market participants that their plans are infeasible.¹² SPP also will determine each affected market participant's responsibility for resolving the infeasibility. Within two hours of SPP's notification of the infeasibility of their resource plans, the affected market participants are required to revise and resubmit their resource plans.

15. At that point, to the extent the affected market participants' revised resource plans do not address the energy obligation deficiency or energy obligation excess condition within a balancing authority or the infeasibility, SPP may (1) direct a market participant with an energy obligation deficiency within the applicable balancing authority area to commit additional resources to correct the energy obligation deficiency, (2) direct a market participant with an energy obligation excess within the applicable balancing authority area to de-commit a resource to correct the energy obligation excess, or (3) direct the applicable market participants to commit or de-commit resources to alleviate constraint violations that have not been addressed within the applicable market participants' revised resource plans.

16. If a market participant fails to follow SPP's instructions causing an emergency condition in the real time market, SPP will submit a report of the market participant's actions to the Commission.

17. SPP proposes to revise Attachment AE in its OATT relating to its real-time imbalance service market to eliminate its requirement (1) to notify market participants of infeasible market solutions, and (2) to require market participants to revise and resubmit their resource plans. Instead, SPP proposes to post notification on its website and to make it optional for market participants to revise their resource plans. SPP also proposes to delete its ability to direct applicable market participants to commit or de-commit resources to alleviate constraint violations that have not been addressed within the

¹¹ *Id.*, section 2.4.2(b). At the same time, SPP also performs a supply adequacy analysis. *See Id.*, section 2.4.2(a).

¹² *Id.*, section 2.4.2(b)(iii).

applicable market participants' revised resource plans in the event the revised resource plans are unable to resolve an energy obligation deficiency or energy obligation excess condition within a balancing authority or to alleviate any identified infeasibility. SPP will continue to post a notification on its website identifying the projected constraint and that TLR may be necessary to resolve the constraint in real time market. And, if they choose to do so, market participants may submit a revised resource plan.

18. According to SPP, the modifications proposed in sections 2.4.2 and 2.4.3 of Attachment AE of its OATT establish a process where it proactively would monitor system conditions and coordinate with Balancing Authorities to determine appropriate plans, without making those processes unnecessarily inefficient. SPP states that its objective with these revisions is to improve process efficiencies. SPP avers that it would be unreasonable to expect market participants to incur the cost of modifying resource plans on a day-ahead basis to address what may be, at that time, a transient indication of market conditions. SPP alleges that changes in operating conditions may occur between the time of the day-ahead analysis and real-time operation. As a result, according to SPP, feasibility/infeasibility solutions developed the day before may not materialize. SPP states, further, that, even if it were to issue instructions to market participants intended to resolve the alleged infeasible solution a day ahead of real time, the revised resource plans themselves may prove to be infeasible, due to changes in conditions, unforeseen at the time of the day-ahead analysis.

2. Golden Spread's Protest

19. Golden Spread challenges SPP's proposed revisions. Golden Spread argues that SPP is proposing to eliminate the use of the day-ahead simultaneous feasibility test as a tool for reducing constraints and, instead, to rely on the use of TLRs if resource plans produced by multiple market participants turn out not to be feasible in real time.¹³ Rather than increasing efficiencies in proactive market monitoring and coordination, Golden Spread argues that SPP will lose its authority to require market participants to take action to avoid constraints, even when a simultaneous feasibility analysis demonstrates that constraints may occur. As a result, according to Golden Spread, there will be more constraints and SPP's customers will pay more for electric service because of the increased use of the TLR process and because the constraints will enable strategically-located generators to exercise market power in additional hours.¹⁴

20. Golden Spread points out that, when a market participant develops its resource plans, it does so without knowledge of the resource plans of other market participants, and perhaps without knowledge of other factors that may make it more likely than not

¹³ See Golden Spread Protest at 3.

¹⁴ *Id.*

that its proposed resource plan will prove to be infeasible in real time. According to Golden Spread, if corrective action is not taken, it is more likely than not that, in real time, some compensatory action, such as invocation of a TLR, will have to take place. If that occurs, Golden Spread alleges there could be adverse economic consequences on the affected market participant in the form of imbalance charges that may even reflect the cost associated with Violation Relaxation Limit (VRL) charges imposed by SPP.¹⁵

21. Golden Spread also argues that SPP has not attempted to quantify the effect of real time constraints that would arise because of SPP's lack of authority to direct the actions needed to avoid those constraints. Golden Spread then points out that SPP's elimination of those sections is contrary to the Commission's direction to SPP to undertake a simultaneous feasibility analysis in evaluating the day-ahead resource plans and modify the submission requirements for resource plans so that the generator-load pairs are mapped to the nodes of SPP's transmission system.¹⁶

C. Commission Determination

22. We reject SPP's proposed revisions. We find SPP has not supported its proposed changes. As an initial matter, we note that SPP's market differs substantially from other RTO markets in that SPP proposes only to operate a market for the provision of imbalance service in real time with no "must offer" requirement but with a "must purchase" obligation by market participants. The Commission found that SPP's day-ahead and hour-ahead resource planning processes as provided in Attachment AE supplanted the need for a must-offer requirement because load-serving entities must commit a sufficient level of deliverable resources to meet their load in the day-ahead and hour-ahead periods.¹⁷ The Commission noted that the need to protect against the exercise of market power in the imbalance market would be offset by each market participant's set of resources designated to serve its load and any reserve needs.¹⁸

23. The Commission's approval of the resource planning processes and its market monitoring and mitigation plan in Attachment AE in SPP's tariff was based on this premise. We are not persuaded by SPP's other justification for the revisions, *i.e.*, that the revisions were developed through SPP's stakeholder process and that the revisions increase efficiency. While we give deference to the stakeholder process, as noted by

¹⁵ *Id.*, at 4.

¹⁶ *Citing SPP Market Order*, at P 41.

¹⁷ *See SPP Market Order*, at P 172.

¹⁸ *Id.*, at 4.

SPP, for the reasons noted above, this is an insufficient justification in this case.¹⁹ The stakeholder process is not the end of the analysis. It is used to generate proposals that, to become effective, must be filed under section 205 of the FPA and merit Commission approval. SPP is ultimately responsible for the stable operation of its market and must provide justification for its proposal to show that the market will operate reasonably and provide just and reasonable rates. In the *SPP Market Order*, the Commission directed that a day-ahead simultaneous feasibility analysis would be required to guarantee that SPP would not rely on emergency curtailments to manage infeasible situations on an after-the-fact basis.²⁰ Less than 60 days prior to the proposed market start and two days prior to filing its market readiness certification, SPP filed a change to a market design feature established by the Commission in its *SPP Market Order*. In this case, SPP did this without providing any supporting data other than unsupported allegations and a reliance on the stakeholder process. In light of SPP's market design and the Commission's concerns regarding SPP's reliance on emergency curtailments, we find SPP's economic efficiencies argument unpersuasive.

24. We find it more likely that SPP's proposal may increase costs to market participants because the revisions would eliminate the requirement to have a feasible/deliverable market solution. We agree with Golden Spread that the constraints foreseen by the simultaneous feasibility analysis if not resolved before they occur could well cause customers to pay more for electricity because of SPP's intention to rely on energy curtailments in real time.

25. We note that SPP's energy imbalance market began operation on February 1, 2007. As to this issue, SPP and its customers need to gain market experience before they can assess whether changes need to be made. Given time for the resource planning process to work in SPP's market, SPP may be able to demonstrate that some refinement to its imbalance market processes is appropriate. At this time, however, SPP should allow its approved resource planning process a reasonable chance to work.

¹⁹ See, e.g., *Southwest Power Pool, Inc.*, 112 FERC ¶ 61,303 at P 25 (2005); *Southwest Power Pool, Inc.*, 116 FERC ¶ 61,162 at P 37 (2006); *Midwest Independent Transmission System Operator, Inc.*, 111 FERC ¶ 61,043 at P 49 (2005); *California Independent System Operator Corp.*, 118 FERC ¶ 61,045 (2007).

²⁰ See 114 FERC ¶ 61,289 at P 41 (2006).

The Commission orders:

SPP's tariff revisions are hereby rejected, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.