

**Missouri Public Service Commission
Case No. EO-2011-0134
In the Matter of an Investigation Into
Southwest Power Pool Cost Allocations and Cost Overruns**

**SOUTHWEST POWER POOL, INC.
RESPONSES TO QUESTIONS FROM COMMISSION STAFF
RECEIVED ON DECEMBER 27, 2010**

INFORMATION REQUESTED:

- 1) KCPL, KCPL-GMO, Empire, and CU do not appear to have a net benefit for their participation in the SPP RTO due to the highway/byway method of cost allocation with the inclusion of the ITP20 projects.
 - Does the SPP have any plans to modify its cost allocation methodology so SPP's Missouri participants have a net benefit?

Response:

Any proposed changes to SPP cost allocation methodologies should be initiated at the CAWG/RSC, as cost allocation is a responsibility assigned specifically to SPP Regional State Committee's ("RSC"). As SPP cost allocation methodologies are set forth in the SPP Tariff, all proposed modifications must be accomplished through the SPP stakeholder process, including the RTWG, MOPC, and Board of Directors. Any changes approved through the stakeholder process must also be filed with and approved by FERC.

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INFORMATION REQUESTED:

- 2) Based on the results of the SPP ITP20 Report, the allocation of costs to the SPP Missouri utilities exceed the benefits.
- Are there any changes that SPP contemplates in the near future that will change this result before 2030?

Response:

The Integrated Transmission Plan (“ITP”) is an iterative 3-year process.¹ The 18-month study cycle of the ITP 20-Year Assessment (“ITP20”)² will be conducted again starting January 2012 and thereafter, once every 3 years for a total of nine more iterations by 2030, creating many opportunities for refinements along the way. The ITP Ten-Year Assessment (“ITP10”) will also be considered a total of nine times by 2030. This ITP10 will identify any cost beneficial transmission enhancements for delivery of economy energy from the ITP20 EHV design grid to load centers like Kansas City, Springfield and Branson, MO. Because the authority to address cost allocation issues is within the SPP Regional State Committee’s (“RSC”) authority, the RSC can choose to address cost allocation issues at any time.

¹ The ITP Manual is available at: <http://www.spp.org/section.asp?pageID=128>.

² The ITP20 Report is available at: <http://www.spp.org/publications/ITP20%20Report%20Draft.pdf>.

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INFORMATION REQUESTED:

- 3) Why did SPP recommend Robust Plan 1 over the Cost Effective Plan or Robust Plan 3, which has a much greater benefit to cost ratio?

Response:

Developing a robust grid has been identified as a priority through multiple SPP stakeholder groups, including the Strategic Planning Committee (“SPC”) and the Economic Studies Working Group (“ESWG”). Robustness has been measured for each plan using the robust metrics developed by the ESWG Metrics Task Force. Robust Plan (“RP”) 1 was recommended as it is particularly robust and also has a high benefit/cost ratio. RP3 is not as robust, and was the worst performing plan under the robustness criteria. The Cost-Effective Plan is defined in the ITP Manual as being a prototypical intermediate phase to the complete process, which was SPP staff’s basis for not selecting it.

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INFORMATION REQUESTED:

- 4) Regarding Missouri utilities' statutory obligations to purchase minimum amounts of wind and solar energy, how does SPP Staff's recommended Robust Plan 1 address such requirements? Will the facilities of Robust Plan 1 be sufficient to deliver the SPP projected benefits to Missouri consumers?

Response:

While the ITP10 and ITP Near-Term Assessment will look at deliverability, the assumptions modeled for the ITP20 included Missouri renewable requirements. The Cost Allocation Working Group ("CAWG") sent a survey to each state's public service commission requesting information as to what renewable each utility would require to meet their self-imposed targets or state requirements. In all four futures, the Missouri entities were allocated the appropriate amount of renewable energy to satisfy the state mandates. The RP 1 projects allow sufficient renewable energy to reach the market such that the renewable standard in Missouri would be met following the completion of the full ITP study cycle. Transmission service for renewable capacity would be acquired by Missouri utilities through the SPP aggregate transmission service process as a separate process from the ITP20 Assessment.

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INFORMATION REQUESTED:

- 5) Please explain the difference between the Authorization to Plan (ATP) and Notice To Construct (NTC) as discussed in the ITP20 Draft Report and in the SPP Staff presentation of 12/15?
- How does SPP plan to use, if at all, ATPs for the ITP20 process?

Response:

An Authorization to Plan (“ATP”) is defined in the SPP Integrated Transmission Planning Manual (“ITP Manual”) as a status given to a project which has been approved by the SPP Board of Directors (“SPP Board”) and for which a Notification to Construct (“NTC”) has not been issued because it is outside of the NTC financial commitment window. A project will only receive an NTC if construction expenditures for it need to start within the NTC financial commitment window.

The ITP Manual describes how the 20-Year and 10-Year plans will be incorporated into the Near-Term Assessment annually. These longer range plans and the ATPs serve as part of a pool of solutions from which the nearer term plans (Near-Term Assessment, Generation Interconnection, Transmission Service Request, Screening Studies) draw to develop and conclude the best near term regional solution for the SPP footprint while also considering the longer range plans’ goals. Projects with ATPs will be included in future Aggregate Study and Generation Interconnection study models if needed as solutions for those study objectives. Projects with ATPs, when added, will be included in the model that corresponds to the expected in-service date of each project and all subsequent models. Projects with ATPs, with an in service date that is beyond the year being modeled, will be available for advancement as a solution in the current study if it resolves one of that study’s issues. Also, projects with ATPs are re-evaluated during successive ITP studies to insure their continuing value or need.

At its January 2011 meeting, the Markets and Operations Policy Committee (“MOPC”) directed SPP staff to develop a business practice to address the issuance of ATPs and related issues and present such process at the next MOPC meeting in April 2011.

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INFORMATION REQUESTED:

- 6) If the SPP Board approves the ITP20 portfolio of projects, will these projects and the project developers be given preferential treatment in the determination of whether or not to issue future Notice To Construct (NTCs)?

Response:

No developers will be given any preferential treatment. Approved ITP20 projects will be some of the first considered as solution options to mitigate reliability needs as identified. However, if an alternative project is identified which outperforms, or performs at the same level at a cheaper cost, then the alternative project would be selected.

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INFORMATION REQUESTED:

- 7) Does SPP intend to use qualitative benefits in its analysis of ITP20 projects?

Response:

To better assess the comprehensive value of projects, qualitative benefit calculations were developed, reviewed and approved by SPP stakeholder groups. The ITP20 project analyses included robustness metrics as defined by the ESWG's Metrics Task Force and the Robustness Metrics Manual.³

³ The draft Robustness Metrics Manual is available at: <http://www.spp.org/section.asp?pageID=129>.

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INFORMATION REQUESTED:

- 8) Will a low and high natural gas sensitivity analysis be completed by SPP before the January 2011 cycle of RSC and board meetings so that stakeholders can understand the impact that natural gas prices can have on the recommended ITP20 facilities design?
- Does Attachment O to the SPP OATT require a sensitivity analysis to be performed regarding a low and high natural gas prices so that stakeholders, the RSC, and the SPP Board have an understanding of how the proposed Robust Plan 1 would perform under varying assumptions?

Response:

SPP does not plan to perform a low and high natural gas sensitivity analysis before the January 2011 cycle of RSC and SPP Board meetings. SPP Open Access Transmission Tariff (“OATT” or “Tariff”) Attachment O Section III⁴ applies to all of the assessments conducted under the Integrated Transmission Planning process, not just the 20-year assessment. Section III (8) states that the ITP analysis shall take into consideration multiple factors. Section III (8)(e)(iv) provides a non-inclusive list of factors as scenarios to analyze, including sensitivities to fuel prices, load forecasts, and other relevant factors. Importantly, it also says that SPP will consult the stakeholders for guidance in the development of these scenarios. SPP did exactly what the OATT requires by considering the sensitivity of these factors in developing the scenarios/futures analysis for fuel prices as required in OATT Attachment O Section III (8). SPP staff worked with stakeholders during the course of several an ESGW meetings to get stakeholder consensus on the analysis to be conducted and scenarios and sensitivities to be addressed. The number of futures was limited to four. Initially the futures had differing load levels. However, at the June 28, 2010 ESGW meeting, it was determined after that the load in each future should be the same. The motion to remove the load changes was made by Southwestern Public Service Company and seconded by Empire District Electric Company. During the same meeting, Black & Veatch, an independent consultant assisting SPP, reported their results from analysis requested by the ESGW to review including changes in fuel prices in the futures. From their analysis it was determined that there was not significant difference in fuel consumption between futures so it would be unreasonable to assume changes in fuel prices, and Black and Veatch suggested that the fuel prices should be the same among the futures. The

⁴ The SPP Tariff is available at: <http://www.spp.org/section.asp?group=215&pageID=27>.

ESWG agreed with this recommendation and made the determination to leave fuel prices static between the futures.

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INFORMATION REQUESTED:

- 9) How did SPP select the specific projects in Robust Plan 2, which includes Missouri projects?
- Is this process described in the SPP ITP Manual?

Response:

SPP developed a list of projects that had potential robust value, as detailed in Appendix A1 of the ITP20 Report. RP 2 included the projects in the cost-effective plan plus robust projects that were thought would increase overall robustness performance of the portfolio. To be included, they had to also have an individual benefit/cost ratio greater than 1.0. SPP reviewed past studies to develop a list of potential projects. These studies include: Kansas Electric Transmission Authority, Oklahoma Electric Power Transmission Task Force, EHV Overlay, Generation Interconnection, Aggregate Studies, Entergy/SPP RTO Planning Process, ICT Strategic Transmission Expansion Plan, & Ozark Transmission Study. A more detailed description of the process can be found in Section III.E.5 of the ITP Manual.

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INFORMATION REQUESTED:

- 10) Why did SPP choose to “not” perform additional plan sensitivity analyses (such as stability analysis) on Robust Plan 2, such as it did for 5 and 6?
- Does Robust Plan 2 or a modified Robust Plan 2 provide an expansion plan that includes benefits for a greater number of SPP members, including Missouri utilities, than the SPP Staff Recommended Robust Plan 1?

Response:

The combination of robust and economic performance of RP2 was lesser than that in RP1. SPP staff moved forward with a recommendation of RP1 as a better 345kV alternative after the October 2010 MOPC meeting. Stability analysis was only performed on candidate plans to ensure reliable transient stability EHV performance, but is not a factor for economics or robustness.

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INFORMATION REQUESTED:

- 11) Why did SPP select Robust Plan 1, which includes Arkansas projects, over Robust plan 2, which includes Missouri projects, when Arkansas utilities do not have any statutory obligations to purchase renewable resources?

Response:

The purpose of the ITP20 is to develop an EHV grid capable of delivering multiple energy resources to a diverse SPP footprint. Several projects, such as those in Arkansas, work together as a portfolio to provide benefits of accessing those diverse resources. In the opinion of SPP staff, RP1 was the best all-around plan because it combines a strong benefit/cost ratio with high robustness scores.

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INFORMATION REQUESTED:

- 12) Why is SPP Staff recommending Robust Plan 1 over the Common Plan, Cost Effective Plan, and Robust Plan 3, which have benefit to cost ratios that are greater than 1 and higher than Robust Plan 1.

Response:

The Common Plan, like the Cost Effective Plan, is defined by the ITP Manual as being part of an intermediate phase of the ITP20 process, and SPP staff did not believe these to be final expansion plan options. Additionally, the Common Plan does not allow enough renewable to reach the market to meet any of the renewable standards. As explained in SPP's response to question no. 3, developing a robust grid has been identified as a priority through multiple SPP stakeholder groups including SPC and ESWG. Robustness has been measured for each plan using the robust metrics developed by the ESWG Metrics Task Force. RP1 was recommended because it is particularly robust with a high benefit/cost ratio. RP3 is not as robust, and was the worst performing plan for robustness criteria.

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INFORMATION REQUESTED:

- 13) Where did SPP obtain the cost estimates for all the projects considered for ITP20, including the Missouri projects in Robust Plan 2?

Response:

SPP developed the cost estimates using generic assumptions consistent with the SPP Transmission Expansion Plan. As SPP continues to develop the project estimation and project tracking processes pursuant to the recent RSC recommendations, these cost estimates will continue to be refined as we move closer to implementation. The estimates and the project details are available in Table 8.3 of the 2010 ITP20 Report.

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INFORMATION REQUESTED:

- 14) What range of cost should stakeholders expect the final costs to be for Robust Plan 1, if such projects are further analyzed for issuances of NTCs?
- Since the incremental benefit of Robust Plan 1 projects do not provide a benefit to cost greater than 1, what actions would SPP Staff recommend be taken if the cost of these projects is greater than those cost estimates presented in the ITP20 report?

Response:

The project estimates for any ITP20 plan are planning level estimates for the 20-year horizon. As such, project management estimates could vary significantly as well as the actual designs themselves over the course of 20-year outlook. Currently, the total 40-year benefit/cost ratio for RP1 is 4.06. The cost of RP1 could increase significantly and still provide a benefit/cost ratio greater than 1.

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INFORMATION REQUESTED:

- 15) In the ITP20 Report, SPP presented specific transmission project routes that have a higher sensitivity to usage.
- How did SPP analyze the specific routes of Robust Plan 2 and determine sensitivities in the Missouri projects?

Response:

SPP does not specifically route projects. The exact location/siting of lines is determined pursuant to state law. The projects plans established by SPP simply have a beginning and an end point. The incumbent Transmission Owner, pursuant to local, state and federal law processes, will determine the best specific route for the project between the two end points. The routes used are indicative of past studies where the same projects have been analyzed.

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INFORMATION REQUESTED:

- 16) Why did SPP use a 17% carrying charge rate in its analysis of ITP20?
- What is the weighted carrying charge rate of the entities building the facilities in the analysis (ITP20)?

Response:

SPP used a 17% carrying charge rate as it is indicative of the average rate for SPP entities. The building entities have not yet been determined for any of the projects.

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INFORMATION REQUESTED:

- 17) Does SPP believe that the Robust Plan 1 and Priority Projects are essential to Day 2 market operations?
- Why has 2014 been set as the date of Day 2 market start-up?
 - Should the Day 2 market start-up be delayed until the completion of the Priority Projects and Robust Plan 1?
 - Should SPP delay the construction of new facilities until the Priority Projects are completed?

Response:

The ITP20 designs are not a requirement for successful implementation of the Day 2 Market framework, part of the SPP Integrated Marketplace. The ITP20 emulates a market environment by dispatching generation resources as a single Balancing Authority.

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INFORMATION REQUESTED:

- 18) Should the Unintended Consequences provisions of the OATT be addressed prior to 2013 so that all SPP members, including Missouri members, have net benefits over the long-term?

Response:

The Unintended Consequences provisions, accepted by FERC in its June 2010 order on the SPP Highway/Byway cost allocation filing,⁵ was developed through the SPP stakeholder process and was evolving even as it went through the MOPC and the SPP Board. The current provision allows for a more frequent and more thorough analysis for Unintended Consequences to determine if there are equity issues that need to be addressed through the process in the Tariff. As the Highway/Byway cost allocation went into effect in June 2010, it will take some time for there to be enough data from the use of this methodology to accurately assess the benefits for a particular region or entity and determine if long-term equity issues exist. If an entity, including the Commission, believes that the Unintended Consequences provisions in the SPP Tariff, should be addressed prior to 2013, the SPP process – in particular the CAWG/RSC – offers a forum to address the OATT before 2013.

⁵ The Highway/Byway SPP Tariff revisions were filed with FERC on April 19, 2010. A copy of the complete filing is available at: http://www.spp.org/publications/2010-04-19_Highway-Byway%20Cost%20Allocation_ER10-1069.pdf. FERC approved Highway/Byway on June 17, 2010. A copy of the FERC Order is available at: http://www.spp.org/publications/2010-06-17_Order%20-%20Highway-Byway%20Cost%20Allocation_ER10-1069.pdf.

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INFORMATION REQUESTED:

- 19) Is SPP committed to a fair and reasonable allocation of costs to the various SPP members based upon SPP member benefits?

Response:

SPP has and continues to be committed to ensuring long-term equity in the application of its cost allocation methodologies. SPP has a history of affirmatively acting to correct Unintended Consequences when they have been found through past analysis. The ultimate decision as to whether the allocation of costs is “fair and reasonable” is a decision of state and federal regulators. Once rates are established by the regulators, SPP will administer the policies which are set by regulators.

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INFORMATION REQUESTED:

- 20) On page 184 of the ITP20 Draft report, there is a benefit/cost analysis that indicates that additional transfers are needed to benefit deficient zones, such as Empire, to improve the benefit to cost ratio.
- How is SPP going to address these inequities in the future?
 - Do the SPP member inequities displayed in the draft ITP20 report indicate that SPP's 100% regionalization of transmission projects at 345k or greater do not provide commensurate benefits to all members?

Response:

The information provided in the ITP 20 report related to transfers was presented as part of the report for purely illustrative purposes. Any determination related to such transfers or any method of addressing Unintended Consequences must be accomplished through the SPP Stakeholder process, including the CAWG and RSC. If an entity, including the Commission, believes that the Unintended Consequences provisions of the SPP Tariff should be addressed prior to 2013, the SPP process – in particular the CAWG/RSC – offers a forum to address the OATT before 2013.

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INFORMATION REQUESTED:

- 21) Does SPP believe that a change in the highway byway cost allocation method may be an appropriate consideration of the RSC to better balance the allocation of costs and benefits within the SPP membership?

Response:

Consideration of changes in the current Highway/Byway cost allocation methodology is premature at this time. Once the first Unintended Consequences analysis has been conducted in 2013 and presented to stakeholders and the RSC, it will be up to the RSC to determine if any action needs to be taken to address any balance issues as well as what the appropriate action may be. If any SPP stakeholder believes that changes to the Highway/Byway cost allocation methodology is appropriate, the RSC is the forum to address any concerns.

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- 22) Will SPP staff recommend the cancellation or modification of transmission project NTC or other cost recovery if the projected costs or benefits of a project appear to be materially different than when the project was recommended and approved?

Response:

The NTC business practices provide for instances when an NTC can be re-evaluated.

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INFORMATION REQUESTED:

- 23) How many notices of SPP member intent to withdraw from the SPP has SPP received since the inception of the SPP RTO? If so, what would be the impacts to existing members, such as Empire and KCPL?

Response:

Three members have withdrawn since the inception of the SPP RTO. Those members were Southwest Power Administration, Reliant Energy Services, Inc. and the City Water & Light Plant, Jonesboro, Arkansas. In the first few years following the inception of the SPP RTO, a number of members gave notice of intent to withdraw in an effort to protect their ability to withdraw, but those notices were ultimately withdrawn and the entities retained their membership in the SPP RTO. In 2004, SPP received 17 notices. In 2005, SPP received 8 notices and in 2006, SPP received 5 notices. In 2007, 2008 and 2009, there were 2 entities that submitted a notice of intent to withdraw, and in 2010, SPP received 3 notices of intent to withdraw. The impact of a withdrawal on the existing members would be based on the specifics related to the withdrawing member and it would be speculative for SPP to attempt to describe the potential impact on a general basis.