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Witness: Richard A. Wodyka
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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DIRECT TESTIMONY OF RICHARD A. WODYKA, SENIOR VICE PRESIDENT OF ENERGY AND UTITLITY SERVICES, GESTALT LLC, ON BEHALF OF SOUTHWEST POWER POOL, INC. (SPP)

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Richard A. Wodyka. I am the Senior Vice President of Energy and Utility Services for Gestalt, LLC at 680 American Avenue, Suite 302, in King of Prussia, Pennsylvania 19406.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. Gestalt has been retained by SPP to provide testimony to the Missouri Public Service Commission in order to provide it with an independent assessment of the SPP Regional State Committee cost-benefit analysis performed by Charles River Associates, now CRA International (CRA), which is documented in the report, dated April 23, 2005 ("CRA report") and recently updated on July 25, 2005. The CRA report findings are an important input for this Commission to consider in this proceeding. My testimony is intended to provide further insights into the findings as presented in the CRA report. I will also provide additional qualitative insights into the economic and reliability value SPP and its Energy Imbalance Market will bring to the regional electricity market. Hopefully this Commission will find this additional information helpful in reaching a decision in this proceeding.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony provides comments and insights on the basic elements of the SPP cost-benefit analysis. Specifically, my testimony provides: general observations of the analysis; how the SPP analysis compares to other similar studies; how the analysis assumptions affect the results; as well as insights into the impacts and benefits identified from this analysis. I will also provide comments and insights on SPP as a Regional Transmission Organization. Most importantly, I will comment on other potential impacts and benefits which this analysis did not

identify but which I believe are applicable and very relevant for the Missouri Public Service Commission to consider in this very important proceeding.

II. QUALIFICATIONS

Q. PLEASE DESCRIBE YOUR WORK HISTORY.

A. I joined Gestalt, LLC in August 2005 as the Senior Vice President of the Energy and Utility Services. I have been a self-employed electric industry Executive Consultant since September 2004 and have been working as an independent Consultant on behalf of Gestalt, LLC. on a number of regulatory projects prior to joining them full time. My other consulting projects have involved open access transmission service related issues and pool operations issues.

Previously, I was employed by the PJM Interconnection, LLC for over 31 years until May 2004. PJM is a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization, similar to SPP. It operates a competitive wholesale electricity market and the electric power grid over the PJM service territory. My last position at PJM was Senior Vice President – RTO Coordination and Integration. In that position, I was responsible for leading PJM's strategic initiatives related to expansion and market integration. I was also responsible for developing collaborative strategies and coordinating corporate initiatives related to electric industry standards as well as managing various strategic activities with external agencies related to PJM's planning, operations, and energy market activities.

Prior to that I was PJM's Executive Vice President and Chief Operating Officer from 1999 through 2002, covering the period when PJM further transformed itself from an Independent System Operator (ISO) to a FERC approved Regional Transmission Organization (RTO). In that position, I was responsible for coordinating, developing, and managing PJM's day-to-day business with direct oversight for system planning, real-time operations, information services, communication services, advanced technology, and all corporate services which included customer relations, training, program

management, procurement and contracts. During this period, I gained experience with cost-benefit studies as they were performed by PJM which is similar to the type of analysis performed for SPP.

Prior to that, from 1994 to 1999, I was PJM's Vice President of System Coordination. In that position, among other duties, I served as the executive lead for the restructuring of PJM as an Independent System Operator. I also helped develop PJM's regional transmission planning protocol, including the foundation principles of the PJM generation interconnection process.

Prior to that, from 1973 to 1993, I held positions of increasing responsibility for PJM in the areas of engineering, operations improvement, and transmission planning.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.

A. I have received the degrees of Master of Science in System Engineering from the University of Pennsylvania in 1978, and Bachelor of Science in Electrical Engineering from Villanova University in 1972.

III. GENERAL OBSERVATIONS OF THE SPP COST-BENEFIT ANALYSIS

Q. WHAT IS YOUR OVERALL ASSESSMENT OF THE SPP COST-BENEFIT ANALYSIS?

A. In my opinion, the SPP cost-benefit analysis is a complete and comprehensive study that clearly quantifies the economic value of SPP proceeding with the Energy Imbalance Services Market implementation. While this economic value is not evenly distributed across all individual Transmission Owners or states, the Energy Imbalance Services market does provide clear economic value to the overall SPP region. There are other qualitative benefits which are difficult to quantify in terms of dollars, but these qualitative benefits also will bring economic value from the SPP operation of the Energy Imbalance Services market. I believe that the SPP operation of this market will also ensure the best overall reliable operations for the SPP region which serves the reliability interests of all SPP Transmission Owners and all their respective customers.

The SPP cost-benefit analysis was performed by CRA, which is a competent, well respected electric industry consulting firm with the experience and capabilities in performing this type of cost-benefit analysis.

This analysis was performed under the direction of the SPP Regional State Committee (RSC) through the Cost-Benefit Task Force (CBTF), which included representatives from the SPP Regional State Commissions, the SPP member utilities, a consumer advocate representative, and SPP staff representatives.

The development of the goals and scope of the analysis was an inclusive stakeholder process. The analysis goals established by the RSC were:

1.) Evaluate the costs and benefits that would accrue from the consolidation of SPP services and functions, and

2.) Evaluate the costs and benefits of SPP's proposed implementation of an Energy Imbalance Services Market.

In my opinion, the goals of this analysis have been achieved. The results provide a valuable resource for the Missouri Public Service Commission in helping them decide the value of the SPP services and operation of the Energy Imbalance Service (EIS) market for the customers of their state. The analysis findings demonstrate that the SPP services and operation of the Energy Imbalance Services market does provide significant value to the SPP region as well as a significant benefit to Missouri electricity customers.

The primary areas of analysis selected for this study are very typical for this type of evaluation. The three customized operational scenarios modeled are the foundation of comparison between SPP's operations in the Base case and the two potential future operations states (Stand-alone case and the Energy Imbalance Services market case). The general analysis covered a ten year timeframe (2006 to 2015). The findings, as documented in the CRA report, delineate the three operations scenarios through a comparison of generation production costs, regional generation dispatch, and wholesale spot energy prices. In my opinion, the findings are comprehensive and reasonably represent future SPP operations under the proposed Energy Imbalance Services market. It is also important to note that these findings are linked together as a package of results. Individual

results can not be selectively chosen or modified without carefully considering how that specific element could impact the analysis findings overall.

The quantitative results of this analysis were determined through energy market simulations of three SPP operating scenarios. The energy market simulations were performed using the General Electric MAPS software program. This program is one of the best analysis tools for determining the production costs associated with different alternative operating scenarios and is widely recognized as an industry standard for this type of analysis. The program results are the quantitative values which form the basis of comparing which of the scenarios provides the most value to the SPP region. The program results were further allocated by state and individual transmission owners. A more detailed explanation and discussion of the CRA analysis methodology and its underlying assumptions is being provided by Ellen Wolfe, Senior Consultant of CRA and Ralph Luciani, Vice President of CRA in separate testimony.

IV. COMPARISON TO OTHER SIMILAR STUDIES

Q. HOW DOES THE SPP ANALYSIS COMPARE TO OTHER INDUSTRY STUDIES?

A. In my opinion, the SPP analysis is comparable to the other industry studies referenced in the CRA report, but as the report points out, there are distinctive differences. These similarities and differences can be summarized as:

1.) The SPP analysis is comparable to other referenced studies in its use of a production cost evaluation technique as the primary analysis methodology.

2.) Another important similarity in all but one of these studies is that the primary purpose was to determine the economic value (benefits and costs) of an RTO's proposed course of action. That determination aids the interested regulatory agency in evaluating a critical policy question. The policy question being addressed is: "What is the value of RTOs considering the specific functions they perform?" This general question was similar across all the referenced studies except the ERCOT study. This particular study, while it used the same production cost methodology, was performed

specifically to evaluate a particular market structure question that is the relative value of nodal versus zonal market pricing. This study was unlike the SPP and the other referenced studies which focused on the more general benefit and cost question of RTOs.

3.) The analysis performed for the SPP Regional State Committee is different to the other referenced studies in that it focuses on the specific circumstances of the SPP region and the proposed implementation of the SPP Energy Imbalance Services market. The SPP Regional State Committee's primary goal was to determine the value of the proposed implementation of the SPP Energy Imbalance Services market to the SPP region. A secondary consideration was to determine the value of SPP as an RTO providing the consolidation of services and functions for the region. In the case of the other similar referenced studies, the policy question – "What is the value of RTOs?" - was generally the same but the specific elements of the analysis (market focus, key issues, benefits, costs, timeframe, and methodology) were different to varying degrees. This difference is appropriate to evaluate the specific goals of the SPP Regional State Committee and the specific circumstances of SPP in its evolution to assume more functions as an RTO. These specific findings provide more useful data for this Commission because it is focused solely on the value to the SPP region.

Q. WHAT IS THE VALUE OF COMPARING THE SPP ANALYSIS TO OTHER PUBLICLY AVAILABLE STUDIES?

A. It is important to compare the SPP analysis with other similar studies as another reference input for the Missouri Public Service Commission decision making process. One value of this comparison is a measure of comfort for the Commission in that the RSC sponsored analysis was performed using an industry accepted methodology with customized data inputs for the SPP region.

Another value of this comparison for the Commission is that the results of all the other similar studies referenced demonstrate some measure of economic value for market participants and consumers operating under RTOs. While all this

information is relevant to the national and regional debate on the RTO policy question, it is also relevant in this specific proceeding for the Missouri Public Service Commission to recognize the value, in terms of reliable operations and economic efficiency that other regions of the country have placed on RTOs.

V. THE STUDY ASSUMPTIONS

Q. HOW DO THE VARIOUS STUDY ASSUMPTIONS AFFECT THE FINDINGS OF THE SPP ANALYSIS?

A. Selecting the study assumptions is one of the most critical steps in performing an analysis of this type. The data values for all these critical inputs are selected from the most current and most accurate data sources available, although accommodations are necessary to enable certain SPP specific facts and situations to be shaped into the model inputs. The importance of selecting the basic assumptions is in the ability to most accurately portray the resultant market conditions for various proposed market structures from present available data and to highlight the most critical issues for further consideration. The data sources which were utilized are documented in the CRA report.

The SPP specific assumptions for this analysis were selected to most accurately utilize the various existing data sources after discussions between CRA, CBTF, and SPP staff. The critical energy data and modeling assumptions for this analysis were: hourly load values; fuel forecasts; generation bids; transmission system configuration; environmental adders; generation additions and retirements; external region supply; and dispatch-able demand. In performing any complex technical analysis such as that employed for this study, it is clearly understood that changing any one of these assumptions can and often would have a significant impact on the overall results.

Q. WHAT ARE THE MOST CRITICAL INPUTS AND MODELLING ELEMENTS AND HOW MIGHT THEY IMPACT THE ANALYSIS RESULTS?

A. As in any complex technical analysis, the study results are very dependent on the various study inputs and modeling methods used. The results are always subject to a margin of error due to the parameters selected. For this particular analysis, the input data which have the most impact on the results margin of error are: transmission constraint monitoring, generator characteristics data, fuel price forecasts, and the future RTO costs. All of these input sources were carefully evaluated and selected based upon discussions between CRA, CBTF, and SPP staff. Despite this careful attention to detail there are likely data errors that have affected the analysis. The good news is that these errors are likely within the margin of reasonability for the region when considered as a whole, but the bad news is they could skew the results when broken into the various components for any individual company or state. In reviewing the regional findings and especially evaluating the individual company and state results, this should be carefully taken into account in considering the various benefits and costs.

There are other important decisions related to selecting the individual methodology elements within the overall analysis methodology which if modified could also impact the results. These other analysis elements include: the generator commitment method, the marginal-cost generator pricing model, the modeling of market inefficiencies, the proportional allocation of trade benefits, and the method used to allocate the transmission services paid and collected. Individually or collectively, these other elements could also introduce some margin of error in the results.

CRA did not perform a formal margin of error analysis for this study but based on their experience with a number of similar studies they believe that changes of less than $10 million over the 10-year analysis period for the individual companies are likely to be within the study's margin of error. Based upon my evaluation of this analysis, compared to other similar studies which used production cost analysis programs and my own experience with similar studies as performed by PJM under my direction, I believe that the CRA assessment of the margin of error for the SPP analysis is reasonable.

VI. THE ANALYSIS BENEFITS AND COSTS

Q. PLEASE COMMENT ON THE SPP COST- BENEFIT ANALYSIS RESULTS.

A. In my opinion, based on my experience with these types of cost-benefit studies, the results developed through this simulation analysis are complete and represent a reasonable picture of the three operating scenarios evaluated in this study.

The analysis results for the Energy Imbalance Services Market implementation clearly indicate considerably more benefits than costs for the SPP region. The study found that the implementation of an Energy Imbalance Services market within SPP would alone produce an estimated economic trade benefit of $614 million over the 10-year study timeframe. The administrative costs were projected to be $105 million for SPP and $108 million for the market participants. Also included were the transmission wheeling charges and revenues. The net benefit for the Energy Imbalance Services market implementation was estimated to be $373 million. The benefits (costs) for each individual transmission owner operating with the Energy Imbalance Services market under the SPP tariff was determined and then an allocation of the six investor owned utilities' results was performed to illustrate the benefits (costs) for each of the SPP region states. While most of the utilities and states have significant positive benefits, a few have small negative benefits (additional costs) which can be interpreted as essentially breaking even due to the margin of error for this type of analysis. In a study of this type there is a margin of error caused by various abstractions in the modeling assumptions as was noted previously in my comments on the study assumptions.

A comparison of the Stand-Alone case results to the Energy Imbalance Services market case results indicates that there would be about $70 million of additional net costs over the 10-year study period under the Stand-Alone scenario. While the Stand-Alone scenario increases the costs for most utilities and several of the states, the results indicate that a few individual utilities, specifically Kansas City Power & Light and Southwestern Public Service, may benefit under this scenario from the additional transmission wheeling revenues they might collect. In actual practice, the estimated increase in wheeling revenues is generally associated with a utility that exports significant amounts of power to neighboring

companies. Unfortunately the ability to forecast these transmission wheeling revenues is a little less certain because of how the individual utility tie-line flows were modeled to assess transmission wheeling charges. The forecast uncertainty comes from loop flows being included as part of the tie-line flows which created additional transmission wheeling revenue under the model. This impacts the ability of the model to accurately predict scheduled transactions and therefore the corresponding transmission revenue. This uncertainty should be taken into account when considering the transmission wheeling revenue benefits under the Stand-Alone case. Given this forecasting issue, the specific company wheeling impacts (both wheeling charges and wheeling revenues) presented in this study should be viewed as representative results meriting further review and analysis.

The wholesale generation cost assessment for the 10-year period clearly indicates that the Energy Imbalance Services market implementation increases dispatch efficiency (reducing generator production cost) by approximately 2% and decreases the SPP spot energy prices by approximately 7%. It is important to note that these percentages translate into significant benefits when one is dealing with the large volumes of energy being considered in this study. The Stand-Alone results compared to the Base case did not reveal any significant differences.

VII. THE QUALITATIVE ASSESSMENT OF THE ENERGY IMBALANCE SERVICES MARKET

Q. PLEASE COMMENT ON THE QUALITATIVE ASSESSMENT OF THE ENERGY IMBALANCE SERVICES MARKET.

A. In my opinion, the qualitative assessment identified a few additional benefits and impacts that must be considered in evaluating the overall value of the Energy Imbalance Services market.

First, the implementation of this market would provide transparent price signals. With price transparency comes more market liquidity which brings more market participants having better information for making better business decisions, and results in more choices for both buyers and sellers in the market. The SPP administration of the Energy Imbalance Services market also leads to

the additional production efficiencies for inadvertent energy management which is mentioned but not quantified in this analysis.

The added complexities which are mentioned as a potential negative impact from the Energy Imbalance Services market are real but can be minimized through training. SPP is already providing and will need to continue to provide comprehensive training programs to the market participants as part of the implementation of the new market structure.

VIII. THE QUALITATIVE ASSESSMENT OF MARKET POWER

Q. PLEASE COMMENT ON THE QUALITATIVE ASSESSMENT OF MARKET POWER.

A. While market power is an important issue to be considered in operating the Energy Imbalance Services market, I concur with the CRA qualitative assessment that market power is not likely to become a significant issue with this market implementation.

SPP has in place an independent market monitor and an internal market monitoring unit that will continuously monitor for market abuses and act as the primary deterrent for anyone potentially exercising market power. While market power is possible in any market, the exercise of market power in SPP is unlikely considering the extensive monitoring capability being planned and developed by SPP as well as the severe consequences of getting caught breaking the rules.

Another qualitative benefit of the independent market monitor is that the SPP region State Commissions have an independent resource to address questions and concerns on the operation of the market as well as a source of non-biased market data. In other regions with developed markets, the State Commissions have utilized the market monitoring data to assist them with their regulatory oversight responsibilities in monitoring their jurisdictional utilities.

Another benefit to the regulators, as well as market participants, is the value that transparent real-time market price signals bring through the Energy Imbalance Services market. This value is realized over time as consumers respond with effective actions to limit usage when prices are high and optimize

their use at other times. Better market signals produce better demand side programs.

IX. OTHER POTENTIAL IMPACTS NOT IDENTIFIED IN THE STUDY

Q. FROM YOUR ELECTRIC INDUSTRY EXPERIENCE, PLEASE COMMENT ON ANY OTHER POTENTIAL IMPACTS THAT WERE NOT INDENTIFIED IN THE REPORT THAT SHOULD BE CONSIDERED IN THIS PROCEEDING.

A. While the study results should be considered a very important component for this Commission, there are several other important potential impacts which are not identified in the analysis that I believe should also be considered in this proceeding.

The first potential impact to be considered is that electricity flows do not recognize state jurisdictional boundaries, seams between operating entities within SPP, or seams with neighboring systems. This situation must be accounted for in daily operations. The implementation of the SPP Energy Imbalance Services market focuses on coordinating the generation dispatch across the SPP region in an open, non-discriminatory manner which effectively eliminates seams within the SPP region. This implementation also represents an important first step in being able to better coordinate market operations with neighboring systems to ensure reliability over a larger region as well as better coordination of economic energy transactions between the neighboring regions. Under the FERC order granting SPP RTO status there was a requirement that SPP must have a seams agreement with MISO. This required SPP-MISO seams agreement was filed at FERC on May 3, 2004 and approved by that Commission on January 24, 2005. As market structures evolve and become more closely synchronized between neighboring systems, there will be more economic value to be gained in the future.

The second potential impact to be considered is that absent an Energy Imbalance Services market there are fewer choices and more risks for those load serving utilities that are relying on short term transactions for their final energy

delivery. SPP's operation of the Energy Imbalance Services market would help solve these issues. The economic and reliability value for having more risk is difficult to quantify because of the numerous operating conditions on the system and the different energy procurement strategies of the various load serving entities. From my experience, I have seen load serving entities get themselves into financial difficulties because of their reliance on short term transactions which can become less available and more expensive under various operating conditions. The implementation of the Energy Imbalance Service market would provide all participants more choices and less risk for all load serving utilities to serve their customers more reliably and at a lower overall cost.

One of the most significant system operating problems today is controlling transmission congestion on the grid. Today the SPP system operators use the NERC TLR process to control transmission loadings in real-time operations. The TLR process is a reliability based tool that provides the system operator with a mechanism for controlling transmission congestion which at times is more costly, less effective and less efficient than other market-based transmission congestion management tools used in other regions. Since 2000, the number of TLR events in the SPP region has continued to escalate. In 2001 there were 83 TLR events, in 2002 – 151 TLR events, in 2003 – 226 TLR events, and in 2004 the number had grown to 308 TLR events. The use of the transmission grid continues to evolve with more and more inter-regional economic transactions being scheduled over greater distances. The system operator needs better and more sophisticated operating tools to maintain reliability and to provide cost-effective transmission congestion control. The operation of the SPP Energy Imbalance Services market is an important step in providing the system operator with better real-time operating information and providing the foundation for developing a more sophisticated transmission congestion control mechanism in the next phase of the SPP market development.

A general condition that exists in today's electric utility world is business and regulatory uncertainty due to the changes taking place in the industry. State Commissions play a critical role in eliminating uncertainty in order to bring added value to their customers. Uncertainty also impacts the development of the

electric industries infrastructure as well as investor confidence. The improved coordination through the SPP Regional State Committee in establishing a region wide policy on the implementation of the Energy Imbalance Services market, cost allocation and other issues has gone a long way in setting a definitive course of action for the SPP region and minimizing this uncertainty going forward. The Missouri Public Service Commission approval of the KCPL and EDE applications is another critical step for moving this entire process forward and helping to eliminate some uncertainty associated with the SPP region today.

Q. FROM YOUR ELECTRIC INDUSTRY EXPERIENCE, PLEASE COMMENT ON THE IMPLICATIONS OF NOT PROCEEDING WITH THE SPP IMPLEMENTATION OF THE PROPOSED ENERGY IMBALANCE SERVICES MARKET.

A. In my opinion, without the implementation of the SPP Energy Imbalance Services market the region overall and the state of Missouri would be settling on the status quo and a less efficient future for the all the Missouri electricity customers.

Without the implementation of the Energy Imbalance Services market the SPP region would be faced with a number implications and significant issues. These implications and issues include:

1.) FERC's Order 2000 requires that RTO services include the operation of an open non-discriminatory Energy Imbalance Services market. Without the implementation of this market, SPP is faced with being non-compliant to the FERC order. This also sets up a direct conflict between Federal and State jurisdictions which could lead to resolving this issue through a costly legal battle in the courts.

2.) The implementation of the Energy Imbalance Services market would provide the SPP region with quantifiable and qualitative cost savings as documented in the CRA report findings. Without the operation of the market almost all the quantifiable and qualitative potential savings identified in the CRA report findings would be lost.

3.) The implementation of the Energy Imbalance Services market will provide energy price transparency. Without the market the participants and regulators are left to guess the real prices of energy across the SPP region.

4.) The implementation of the Energy Imbalance Services market will provide an open market that eliminates the current practice of requiring the market participants to pay a penalty for energy imbalances. Without a market the existing Transmission Owners would continue to have an advantage by using their inadvertent energy to cover for their energy imbalances. SPP would be faced with developing some other solution to this situation absent the operation of the Energy Imbalance Services market.

5.) The implementation of the Energy Imbalance Services market provides the foundation for more effectively and efficiently managing transmission congestion across the SPP region in real-time operations. Without the market SPP is left with the current TLR process to manage transmission congestion which at times is more costly, less effective and less efficient than other market-based transmission congestion management tools employed in other regions.

6.) The implementation of the Energy Imbalance Services market will enable SPP to then proceed with the next step in the development of competitive SPP markets as planned. This next step would be the development and implementation of market-based ancillary services. Without the implementation of the Energy Imbalance Services market SPP would be faced with a significant change in direction and would need to reevaluate all its proposed market plans resulting in further delays and likely more costs.

X. OTHER POTENTIAL BENEFITS NOT IDENTIFIED IN THE STUDY

Q. FROM YOUR ELECTRIC INDUSTRY EXPERIENCE, PLEASE COMMENT ON ANY OTHER POTENTIAL BENEFITS THAT WERE NOT INDENTIFIED IN THE REPORT THAT SHOULD BE CONSIDERED IN THIS PROCEEDING.

A. While the study results should be considered a very important component for this Commission, there are several other important potential benefits which are not identified in the analysis that I believe should also be considered in this proceeding.

In a market structure one of the most significant elements is the value of competition. The SPP Energy Imbalance Services market is the first step toward establishing a competitive energy market structure for this region. In regions where competitive energy markets are operating, both generator availability and operating performance have improved. While it may be difficult to quantify the value in dollars, the actual value from improved generator availability is being recognized through the reduction of the regional reliability reserve requirements. This is accomplished because most reliability reserve requirements include a component for generator forced outage rates. As the generator forced outage rates decrease as a result of competitive market forces, the regional reliability reserve requirements and the associated costs are also reduced without impacting the overall reliability of the system.

The second element of improved generator performance results from the lowering of unit heat rates and the reduction of their O&M costs. This improved performance materializes from market participants wanting to maximize their output in the most efficient manner. In a market structure, units get paid for what they produce; therefore, generation owners want to optimize their units' output which results in better overall system operations and, in turn, benefits all consumers of electricity across the region. In a regional market structure there are more opportunities for selling and purchasing power that also heighten the competition for customers and thus further increase the incentives for units to function more efficiently.

There are a number of other likely benefits expected from the implementation of markets within SPP. These additional benefits have been demonstrated in other areas where competitive markets are now operating. These other benefits include the following:

1.) New generation supply has been attracted to the region when markets exist. This also results in improvements in transmission infrastructure through the

development of the regional transmission planning program which also includes the generation interconnection process.

2.) New demand response market programs have developed which have resulted in more diversity in reliability alternatives.

3.) Transparent generation pricing information is produced from the market which promotes better business decisions by both the generators and the load serving entities. While this price transparency clearly adds value for all market participants, it also adds value for the regulators in fulfilling their regulatory oversight responsibilities.

4.) Faster technological innovation has occurred which has resulted in new and better services that add value to better meet customer needs.

5.) Additional environmental benefits have resulted from the new incentives for generators to use fuel more efficiently or to purchase energy rather than to generate it which can cut emissions, costs, and fuel use.

6.) Competitive energy markets like those operating in PJM have promoted more consumer energy efficiency services and green power use which could result in further reducing emissions from fossil-fuel plants.

7.) Other qualitative benefits, while difficult to measure, have resulted in other consumer benefits ranging from enhanced customer service, more product offerings, more billing options, and more product and services tailored to individual customer needs.

There is no guarantee any of the above listed benefits will result from the Energy Imbalance Services market implementation, but there is a good chance that many of them will materialize. This statement is made based upon my knowledge of the markets in operation today.

XI. THE EVOLVING ROLE OF SPP AS AN RTO

Q. FROM YOUR ELECTRIC INDUSTRY EXPERIENCE, PLEASE COMMENT ON THE EVOLVING ROLE OF SPP AS AN RTO.

A. In the context of this proceeding, I believe it is extremely important for the Commission to consider the history of the SPP organization and the value

proposition that it provides to this Commission as well as the consumers of electricity throughout the region.

The SPP legacy extends back more than 60 years to 1941 when 11 utilities across 7 states pooled their generation resources by constructing a regional transmission network to serve the electric needs of a critical defense plant in central Arkansas. From the beginning a spirit of mutual cooperation, built on trusting relationships not on extensive legal documents, has been the foundation of this organization. SPP has always been a stakeholder-driven service organization with broad-based committees, working groups, and ad-hoc task forces providing collaborative solutions to address the myriad of issues over time. These stakeholders are a diversified group comprised of investor-owned utilities, municipal systems, generation and transmission cooperatives, state regulators and various state authorities, federal regulators and various federal agencies, wholesale generators, and power marketers. SPP has developed a unique decision making process by involving all these interested stakeholders directly in the process. Over the years SPP has continued to evolve much like the electric industry has evolved. Through the years, while it has continued to change the package of services it provides based on the needs of the members and the requirements imposed by the industry, it has done so in a deliberate, efficient, and cost-effective manner.

Today SPP is a FERC approved Regional Transmission Organization and a NERC Regional Reliability Council. In these roles SPP has been and remains responsible for the coordination of operating reserves, the monitoring of reliability and security across the region, and providing various transmission services under a Regional Transmission Tariff. All of these steps were taken in a deliberate manner in order to maintain SPP as an efficient and cost effective service organization that meets the needs of the stakeholders.

This leads us to the next logical step in the evolution process – the implementation of an Energy Imbalance Service market for the benefit of electricity consumers across the SPP region. As SPP has done successfully in the past, this implementation is a measured step in the continuing evolution of the SPP services. This is not the last step in the near term evolution for SPP.

Additional functions, which include congestion management, day-ahead markets, and ancillary service markets, are contemplated to be added to the list of SPP services. Some market participants want SPP to charge forward with these additional functions in a much larger implementation all at once. All of these additional functions are part of the SPP future evolution after the successful implementation of the next step – the Energy Imbalance Services market. Some other regions of the country have taken the "Big Bang" approach, for example MISO, and are apparently having early success but at a significant cost. SPP on the other hand believes that the more measured step approach it has chosen is the better option for its stakeholders to achieve the benefits I have described at significantly less cost.

Based upon my extensive experience in implementing regional markets, I believe that SPP is on the right track by taking one step at a time. The primary value of this staged approach is that it minimizes the risk and exposure for all involved stakeholders. I have reviewed the latest Energy Imbalance Service market implementation plan and believe it to be a comprehensive and achievable schedule. Once the Energy Imbalance Services market is operational, the next logical step in the evolution of the SPP market can be pursued in the same measured and deliberate fashion, just as SPP has always done in the past.

XII. CONCLUSIONS

Q. WHAT CONCLUSIONS RELEVANT TO THIS PROCCEDING HAVE YOU DRAWN FROM YOUR REVIEW OF THIS SPP COST-BENEFIT ANALYSIS?

A. The fundamental conclusion which I have reached from my independent review is that the SPP Energy Imbalance Service market implementation is a good thing for the SPP region as a whole as well as the state of Missouri. It provides significant potential benefits, both quantifiable and qualitative, which far outweigh the projected costs. SPP has been and will continue to be an efficient and cost effective stakeholder driven service organization. The Energy Imbalance Services market is the next logical step in the SPP evolution for meeting the

future reliability and customer needs of the SPP region. This implementation is being planned in a comprehensive and measured fashion to minimize the risk and maximize the benefits for all stakeholders throughout the SPP region. Without the implementation of the SPP Energy Imbalance Services market the region and the state of Missouri would be settling on the status quo and less efficient future for all Missouri electricity customers.

I believe that the evidence bears out that for more than sixty years SPP has brought considerable value to the regional electric market in the form of reliable transmission operations. Their becoming an RTO will bring additional benefits from the consolidation of services and functions. And the CRA report indicates that SPP's proposed implementation of an Energy Imbalance Services Market will bring additional economic value to the regional electricity market.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, this concludes my testimony and I want to thank the Missouri Public Service Commission for the opportunity to contribute to the record in this very important regulatory proceeding.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of	)	
Kansas City Power & Light Company	)	
for Authority to Transfer Functional Control	)	Case No. EO-2006-_____
of Certain Transmission Assets to the	)	
Southwest Power Pool, Inc.	)	

AFFIDAVIT OF RICHARD A. WODYKA

State of _____)
) ss
County of _____)

Richard A. Wodyka, being first duly sworn on his oath, states:

1. My name is Richard A. Wodyka. I am the Senior Vice President of Energy and Utility Services for Gestalt, LLC at 680 American Avenue, Suite 302, in King of Prussia, Pennsylvania 19406.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Southwest Power Pool, Inc., consisting of twenty (20) pages, having been prepared in written form for introduction into evidence in the above-captioned case.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

_____
Richard A. Wodyka

Subscribed and sworn before me this ___ day of September 2005.

_____
Notary Public

My commission expires: _____