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 JANUARY 13, 2011

INFORMATION REQUESTED:

1) Please provide justification and any supporting information that was used to support SPP staff's preference for Robust Plan 1 versus the other options included in ITP20.

<u>Response</u>:

SPP staff recommended Robust Plan ("RP") 1 from the 2010 Integrated Transmission Plan 20-Year Assessment ("ITP20")[1] as the best balance of economics and robustness. SPP staff confirmed the stability performance for this design before proceeding with a recommendation. 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"), as well as by the Synergistic Planning Project Team ("SPPT"). Robustness has been measured for each plan using the robust metrics developed by the ESWG Metrics Task Force. RP1 was recommended as it is particularly robust and also has a high benefit/cost ratio.

[1] The current version of the ITP20 Report, dated January 17, 2011, is available at: http://www.spp.org/section.asp?pageID=128.

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INFORMATION REQUESTED:

2) Was SPP staff's decision to recommend Robust Plan 1 because it allows a segway to Robust Plan 5 or Robust Plan 6, both of which use 765 kV?

Response:

No, SPP staff's decision to recommend RP1 was not because it allows a segway to RP5 or RP6, both of which use 765kV. Decisions relating to 765kV and 345kV were based on the engineering analysis explained in the ITP20 Report with no intention of using any plan as a "segway." As explained in SPP's response to Question No. 1 above, SPP staff's decision to recommend RP1 was based on the fact that developing a robust grid has been identified as a priority through multiple SPP stakeholder groups, including the SPC and ESWG, as well as the SPPT, and in the opinion of SPP, RP1 was the best balance of economics and robustness.

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INFORMATION REQUESTED:

3) For Appendix 9.3, please provide the cost and benefits before and after transfer payments. Include data on a per utility basis. If an "average" is included, please provide an explanation of how the "average" was calculated. (Any "average" should not be a straight average, but should indicate total gains.)

Response:

Appendix 9.3 to the ITP20 Report shows a table of the ***differential*** of costs and benefits before and after RP1 upgrades are added to the transmission system topology on a state by state basis and Appendix 9.2 to the ITP20 Report sets forth this information for individual entities. All costs and benefits (change in costs) were calculated by computing the sum of the revenue requirements of the upgrades with balancing transfers, adjusted production costs, reliability benefits, and reduction in losses benefits with the projects ("Change Case") and without the projects ("Base Case"):

Differential Results as shown in Appendix 9.2 and Appendix 9.3:
Change in Costs = Change Case – Base Case

The annual revenue requirements of all the RP1 upgrades are assumed to begin in the year 2030. In other words, the upgrades are all considered all to be placed in-service in 2030. Likewise, the benefits are all shown for 2030. Therefore, an "average" was not utilized, and 2030 is the only year represented. Costs are forecasted to depreciate over time after the facilities are in service for more than one year.

Linear regressions of Balanced Portfolio and Priority Projects benefits were run to project their respective benefits out to year 2030. Costs of all upgrades were developed using a revenue requirement forecast. Revenue requirements are calculated based on the individual Transmission Owner's net plant carrying charge multiplied by the cost of the individual upgrade. Therefore, peak revenue requirement is booked the first year the facilities go into service. All facilities are depreciated every year thereafter. The results of the forecast generated the annual cost assigned as revenue requirement to each Transmission Owner.

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INFORMATION REQUESTED:

4) Please provide work papers for all plans.

Response:

SPP staff has communicated with Commission staff and asked for further clarification of this request and has arranged a conference call to discuss this matter. The need for clarification includes a better understanding of what information Commission staff is interested in obtaining, so that SPP may respond appropriately once the requested information is identified. Further, the need for clarification also includes whether SPP's response to this request would require SPP to provide documents that are Proprietary or Highly Confidential. As the Commission is aware, a great deal of the information utilized by SPP in its construction of models, studies and other working papers was provided to SPP by its members and vendors. In accordance with SPP's governing documents,[2] SPP has a duty to its members and vendors to treat such information as confidential and may not release such information without the protection provided by the MPSC rules.

[2] The governing documents include the SPP Governing Documents Tariff (including the Bylaws and Membership Agreement), and SPP Open Access Transmission Tariff, which are available at: http://www.spp.org/publications/Current%20Bylaws%20and%20Membership%20Agreement%20Tariff.pdf; and http://www.spp.org/publications/SPP_Tariff.pdf, respectively.

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5) Appendix 9.2, line 12 outlines transfer payments. Please explain how transfer payments will work, when they will be included, and what process will be used to determine if/when transfer payments should be implemented.

Response:

The ITP20 Report, addresses Appendix 9.2 on page 101, and explains that "[s]ince the analysis shows the four zones that continue to reflect a cumulative benefit-to-cost ratio less than one, a theoretical set of transfer payments are calculated to adjust benefit by zone to result in the minimum benefit-to-cost ratio of 1 for all four zones." Moreover, presentations made at the 2010 SPP December Integrated Transmission Planning ("ITP") Workshop[3] and the ITP20 Presentation made at the January 11, 2011 Markets and Operations Policy Committee ("MOPC") meeting[4] state that the entire discussion thus far about unintended consequences is conceptual and illustrative and that Staff's purpose was to provide a framework for an ongoing discussion. The MOPC ITP20 Presentation also stated that the materials are "[n]ot a recommendation but a discussion topic."

There is nothing in the SPP Tariff, or in any existing proposal presented to stakeholders to date, that calls for implementation of transfer payments. Therefore, any potential future implementation of transfer payments would require further action.

The theoretical transfer payment amounts shown on Table A9.2 of the January 11, 2011 draft report were computed in two steps. First, the amount of benefit necessary to achieve a minimum benefit/cost ("B/C") ratio of 1.0, for those zones with a B/C ratio less than 1.0 was calculated for each of those zones. Those amounts were then totaled to determine the amount that needed to be extracted from the zones with a B/C ratio greater than 1.0. This required total was extracted from the benefit amounts of the zones having a B/C ratio greater than 1.0 in proportion to each zone's excess benefit.

[3] The 2010 SPP December ITP Workshop was held on December 15, 2010 and presentation materials are available at: http://www.spp.org/section.asp?group=1940&pageID=27.
[4] See Slide 23 of the ITP20Presentation to the MOPC dated January 11, 2011, which begins on page 140 of the MOPC January 11, 2011 MOPC minutes, available at: http://www.spp.org/publications/MOPC%20Minutes%20&%20Attachments%20January%2011-12,%202011.pdf .

This differs from the transfer calculation done for the Balanced Portfolio. In that instance, revenue requirements were transferred. There, the total revenue requirements transferred away from the zones with a B/C ratio of less than 1.0, in order to raise those B/C ratios to 1.0, was computed for each such zone and totaled. That total revenue requirement was then recovered from all zones in proportion to their load ratio share.

A work paper showing computation of the transfer payments is attached.

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INFORMATION REQUESTED:

6) Was a gas sensitivity analysis performed on the cost effective plan.

Response:

No, a gas sensitivity analysis was not performed on the cost effective plan. SPP's Tariff Attachment O Section III.4 applies to all the assessments conducted under the ITP 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 Tariff requires by considering the sensitivity of these factors in developing the scenarios/futures analysis for fuel prices as required in Tariff Attachment O Section III (8). SPP staff worked with stakeholders during the course of several meetings to develop the scenarios to be utilized. The minutes from the January 2010 Regional State Committee ("RSC") meeting[5] include Staff's presentation that included these scenarios. At the June 28, 2010 Economic Studies Working Group (ESWG) meeting, Black & Veatch, an independent consultant assisting SPP, reported its results from the analysis requested by the ESWG. The minutes from the June 28, 2010, meeting contain Gary Wilmes' (Black & Veatch), report that there were not significant differences in fuel consumption per future and therefore there would not be significant differences in fuel costs among the futures. He recommended that the initial results be used as an indicator that there would not need to be much change in the fuel prices used in the models. The consensus of the ESWG was to leave the fuel prices as they are based on the fuel consumption being similar between the futures."[6]

[5] The minutes from the January 2010 RSC meeting are available at: http://www.spp.org/publications/RSC012609.pdf.
[6] See Agenda Item 2(b) to the ESWG's June 28, 2010 minutes. The June 28, 2010 ESWG minutes are available at: http://www.spp.org/publications/ESWG%20Minutes_6-28-2010.doc

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INFORMATION REQUESTED:

7) Has a gas sensitivity analysis been run on any of the plans discussed in ITP20?

Response:

No gas sensitivity analyses have been run on any of the plans discussed in the ITP20. Please see SPP's response to Question No. 6 above for additional explanation.

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8) During previous discussions there was an indication that a gas sensitivity analysis was not completed because time was running short. Is this an accurate depiction as to why gas sensitivity analyses were not completed? Please explain.

Response:

The depiction stated above, that a gas sensitivity analysis was not completed in the ITP20 because time was running short, is not accurate. The ITP20 futures were limited to four from the beginning of the analysis. The ITP process was developed considering a twelve-month timeline for the completion of the first cycle. Later cycles of the ITP20 process will be 18 months. Gas sensitivities were not included as individual futures based on the specific guidance given in the SPP stakeholder process, as is explained in more detail in SPP's response to Question No. 6 above. SPP followed the 2010 ITP20 process as it was determined by the stakeholders and various working groups.

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INFORMATION REQUESTED:

9) Were there any other shortcuts that were taken because time was running short; and if so, what were those shortcuts?

<u>Response</u>:

SPP staff does not believe that any shortcuts were taken. The time for the completion of this entire project was "short", and had there been more time then more analysis could have possibly been performed

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10) Please provide an update as to SPP's perspective on the "unintended consequences" language and when that issue will be addressed.

Response:

Discussions of how to implement the new "unintended consequences" provisions of the SPP Tariff began some time ago, with the expectation that SPP staff will seek input from stakeholders and develop a strawman that includes a process for conducting analysis to determine if there are unintended consequences and recommendations related to mitigating those unintended consequences, including whether mitigation is appropriate. That strawman, including any recommendations, would be vetted through multiple groups within the SPP stakeholder process, including specifically the Cost Allocation Working Group ("CAWG") and the RSC.

The Unintended Consequences provisions, accepted by FERC in its June 17, 2010 order[7] on the SPP Highway/Byway cost allocation filing, was developed through the SPP stakeholder process and was evolving even as it went through the MOPC and the SPP Board of Directors. 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 Unintended Consequences provision of the SPP Tariff, should be addressed prior to 2013, the SPP process – in particular the CAWG and RSC – offers a forum to address the Unintended Consequences provisions in the SPP OATT before 2013.

[7] 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.