

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of and Investigation into)	
Southwest Power Pool Cost Allocations and)	File No. EO-2011-0134
Cost Overruns)	

**SOUTHWEST POWER POOL, INC.'S REPLY COMMENTS IN RESPONSE TO THE
COMMISSION'S ORDER OPENING AN INVESTIGATION INTO SOUTHWEST
POWER POOL COST ALLOCATIONS AND COST OVERRUNS**

COMES NOW, Southwest Power Pool, Inc. ("SPP"), by and through its counsel, and hereby submits its Reply Comments in response to the Staff Report filed by the Staff of the Public Service Commission of the State of Missouri ("Commission") pursuant to the Commission's Order ("Order") Opening An Investigation into Southwest Power Pool Cost Allocations and Cost Overruns issued on November 23, 2010, opening the above-styled docket.

For the most part, SPP agrees with the Staff Report filed by Commission Staff on January 4, 2011, and released publicly on January 5, 2011. SPP values and welcomes the input and opinions of its stakeholders and is carefully considering the Staff Report, along with all other input received on these important issues. Although SPP mostly agrees with the Staff Report, there are portions of the Staff Report that SPP wishes to clarify on a factual and technical basis, as well as other general comments SPP has in response to the Staff Report. SPP appreciates the opportunity to respond Staff's Report.

A. SPP Membership is Beneficial to Empire District Electric Company

SPP agrees with the Commission Staff that Empire District Electric Company's ("Empire") membership in SPP is cost beneficial to Empire. SPP's Comments in Response to the Commission's Order, filed on December 29, 2010 ("SPP Comments"), addressed in greater detail, the benefits Empire has enjoyed as a result of its SPP membership and SPP relies on that filing to support this conclusion.

B. Integrated Transmission Planning

An issue that has been largely discussed in this File is the SPP Integrated Transmission Planning (“ITP”) process,¹ the ITP 20-Year Assessment (“ITP20”)² and the ITP 10-Year Assessment (“ITP10”), as well as what the ITP20 and ITP10 are intended to achieve. The Staff Report states on page 2 that:

[w]hat ITP 10 is designed to do is go out ten years and ask the same questions that were asked about 300 kV and higher upgrades for ITP 20, but with a 10-year horizon rather than a 20-year horizon. However, the choice of 300 kV and higher upgrades to be evaluated over the 10-year horizon are limited by the choice of a specific ITP 20 plan. In addition, the ITP 10 plan will evaluate lower voltage upgrades needed to support the higher voltage upgrades (i.e., lower voltage under-build) to be included in the 10-year plan.

The Commission Staff’s assessment of the ITP10 is not entirely accurate. The ITP10 is not designed to ask and answer the same questions as the ITP20. The focus of the ITP10 is the analysis of the Transmission System and identification of 100 kV and above solutions to (a) the issues that are identified on the 69 kV and above system and (b) issues identified by the ITP20 process within the ITP10 period. The choices of 300 kV and higher upgrades in the ITP10 are not necessarily limited by the ITP20 plan.

SPP would also like to address a statement made on page 5 of the Staff Report relating to the inputs to the ITP10. Specifically, the Staff Report states that:

Once these inputs are specified, SPP planners must take the ITP 20 plan and evaluate which of these upgrades are needed in the 10-year plan. This means recalculating a cost-effective 10-year plan and a robust 10 year plan. The cost-effective plan will also include lower voltage upgrades needed to support the higher voltage system to cost effectively meet delivery of energy required over the 10-year period. Robustness analysis should include additional upgrades that provide incremental benefits in excess of incremental costs. SPP stakeholders will need to determine the specific analysis to be used in evaluating “delivery of energy required” for

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>.

the cost-effective 10-year plan. The basic assumption here is that there is a best implementation strategy over the next 10 years and that not all of the higher voltage upgrades in the ITP 20 plan will be included in that strategy. The results of this step should include a cost-effective 10-year plan and may include additional robust plans to be evaluated regarding incremental costs and incremental benefits.

SPP will develop a transmission expansion plan which will support the goals of the ITP10 scope. That scope supports the development of transmission projects included in multiple plan options that are measured for reliability, robustness and cost-effectiveness. SPP will not develop a single plan that is simply based on cost-effectiveness, or any other single factor. Each project identified in the 2011 ITP10 will be reviewed and endorsed by the Transmission Working Group (“TWG”) and Economic Studies Working Group (“ESWG”) on its individual merits.

In addition, page 7 of the Staff Report states that “the higher voltage upgrades to be considered in ITP 10 will be limited by the choice of the ITP 20 plan.” Projects for the ITP10 will not be limited to projects in the ITP20. The ITP10 scope, approved by the ESWG, TWG, and Markets and Operations Policy Committee (“MOPC”) states that “SPP will use a pool of possible solutions to evaluate the economic and reliability upgrades used to create the ITP10 plan. This pool of solutions will come from SPP transmission service studies, previous reliability and economic studies, ITP20 upgrades, and stakeholder input.”

There may be alternatives to the ITP20 projects which are more suited for the ITP10; additionally, there may be issues identified by the ITP10 analysis which cannot be addressed by a project in the ITP20. The MOPC agreed during their January 11-12, 2011 meeting that the adoption of a specific plan was needed to establish the framework of a vision for the future and an element in the toolkit for the 2011 ITP10.

The Commission Staff also expressed concern over the SPP staff’s recommendation of the ITP20 of Robust Plan 1 (“RP1”) over Robust Plan 3 (“RP3”). As stated above, SPP supports

the opinions and conclusions of the Commission Staff related to the ITP20, however, it is important to ensure that the basis for such opinions is factually accurate. On page 6, the Staff Report said that:

It should be pointed out that the SPP staff recommended Robust Plan 1 over Robust Plan 3 even though it was not the most cost beneficial plan. Robust Plan 1 and Robust Plan 3 are identical with three additional lines and one additional transformer at an estimated cost of \$2,454 million. It is highly unlikely that any of these additional projects will be needed for delivery of energy over the next ten years, and because these projects add additional cost in excess of additional benefits that cannot be justified by the robustness metrics, they should not be considered in the ITP 10 analysis.

These additional projects in RP1 referenced by Commission Staff do add benefit and it is incorrect to assert that these projects add additional cost in excess of additional benefits. While the benefit/cost ratio of these projects reduces the overall benefit/cost ratio of the RP1 portfolio, these projects still have a benefit/cost ratio greater than 1. These additional projects included in RP1 do add significant value based on the robustness metrics.

As a Regional Transmission Organization, a core responsibility of SPP is grid planning, which SPP carries out through a stakeholder process. Pursuant to the stakeholder process, SPP staff prepares drafts, makes recommendations, conducts technical conferences, reports at routine meetings and gathers stakeholder input; all of which leads to the final consideration by the Board of Directors on the approved stakeholder plans. The ITP20 Report was presented to a majority of the stakeholders at the January 2011 meeting of the SPP Markets and Operations Policy Committee (“MOPC”). This stakeholder review process is the basis of SPP’s open and transparent stakeholder process. The MOPC disagreed with SPP staff’s recommendation and instead recommended the Cost-Effective Plan.

The Staff Report contains analysis of the ITP20 results on page 8. Since the time that the Commission Staff filed its Staff Report, SPP has updated the benefit/cost ratio numbers in the ITP20 Report, to take inflation into account. The current version of the ITP20 Report has been updated^d to use an inflation value of 2.5% instead of using a discount factor of 8.0% for the time value of money. This recalculation to include inflation in the current ITP20 Report results in a representation of higher benefit/cost ratios than originally reported. Because the Commission Staff performed its calculations for the Staff Report based on the prior version of the ITP20 Report, those calculations are not consistent with the current version of the ITP20 Report. Additionally, Staff Report Table 2 calculated the net benefit by subtracting one year of benefit from the total cost instead of subtracting that benefit from the annual cost of carrying that investment. Tables 1 and 2 in the Staff Report have been recreated below by SPP staff to be consistent with the benefit/cost ratio calculations in the current ITP20 Report. Note that all dollar values are 2010 nominal and are represented in billions of dollars.

Table 1: Costs and Benefits

Plan	0	1	2	3	4	5	6
Cost	\$1.76	\$2.45	\$3.22	\$1.88	\$6.88	\$2.75	\$3.48
B/C	5.17	4.34	3.36	5.47	1.46	3.89	3.05
Benefits	\$1.542	\$1.811	\$1.837	\$1.748	\$1.703	\$1.816	\$1.804
Cost	\$0	\$0.69	\$1.465	\$0.126	\$5.121	\$0.990	\$1.726

Table 2: Difference in Costs and Benefits from Cost Effective Plan

Plan	1	2	3	4	5	6
Δ Cost	\$0.69	\$1.47	\$0.13	\$5.12	\$0.99	\$1.73
Δ Benefits	\$0.269	\$0.295	\$0.206	\$0.161	\$0.274	\$0.262
Δ Net Benefits*	-\$0.42	-\$1.18	\$0.08	-\$4.96	-\$0.72	-\$1.47
Rank	2	4	1	6	3	5

*The Δ Net Benefits row was calculated by the Commission Staff without the use of a 17% carrying charge and is shown here consistent with that step. The correct calculations are reflected in the ITP20 report in Table 15.23.

Also, although page 8 of the Staff Report indicated that the ITP20 Report did not include the dollar values for benefits; such dollar values for benefits can be found in Tables 15.22, 15.23 and A3.1.

The Commission Staff has raised concerns on pages 24-25 of its Staff Report relating to the fact that the draft ITP20 Report does not contain sensitivities to fuel prices across different scenarios and whether this is in compliance with the SPP Tariff. Section III (8) of the SPP Tariff states that the ITP analysis shall take into consideration multiple factors. Section III (8)(e) of the SPP Tariff, which was not included in the quoted language in the Staff Report states that “[t]he analysis described above shall take into consideration the following” and that subsection provides a non-inclusive list of factors as scenarios to analyze and consider as set forth in Section III (8)(e)(iv), which includes sensitivities to fuel prices, load forecasts, and other relevant factors. Importantly, the SPP Tariff also states that SPP will consult the stakeholders for guidance in the development of these scenarios.

SPP complied with the SPP Tariff requirements by considering the sensitivity of these factors in developing the scenarios/futures analysis for fuel prices as required in Attachment O Section III (8) of the SPP Tariff. SPP staff worked with stakeholders during the course of several ESWG 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 ESWG meeting, it was determined 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.³ During the same meeting, Black & Veatch, an independent consultant assisting SPP, reported its results from the analysis requested by the Economic Studies Working Group (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.”⁴ Benefits of Priority Projects Calculated for Empire

The Staff Report analyzed the Priority Project benefits calculated for Empire. In support of this analysis, Pages 17 and 18 of the Staff Report included a number of tables relating to wind benefits. SPP cannot comment on this information as it is not aware of the methods used to develop these tables and cannot verify the accuracy of such.

C. Notifications to Construct and Authorizations to Plan

SPP recognizes the need for further clarification of its processes related to Notifications to Construct (“NTCs”) and Authorizations to Plan (“ATPs”), and appreciates such concerns of the stakeholders. SPP is working to address these issues, provide the needed clarification, and further develop its processes relating to NTCs and ATPs. SPP is continuing to revise and refine its whitepapers drafted in response to the RSC recommendations, which were discussed in more detail in the SPP Comments, and are the first steps at defining the processes related to NTCs and ATPs. At the January 2011 MOPC meeting, MOPC directed SPP staff to develop a business

³ Minutes from the June 28, 2010 ESWG Meeting are available at:
http://www.spp.org/publications/ESWG%20Minutes_6-28-2010.doc.

⁴ See Agenda Item 2(b) to the ESWG’s June 28, 2010 minutes. A copy of the June 28, 2010 ESWG minutes are available at: http://www.spp.org/publications/ESWG%20Minutes_6-28-2010.doc

practice to address the issuance of ATPs and related issues, to be presented at the April 2011 MOPC meeting. At this time, SPP staff has not requested that the SPP Board of Directors issue any NTCs or ATPs from the ITP20.

The Staff Report stated that “NTCs should only be granted to upgrades that if delayed to start by one year would result in not meeting their specified time to be online. These recommendations will go to the SPP Board in the STEP 2010 report, with approval at the January Board meeting in 2012.” It is important to clarify that NTCs are typically issued by the SPP Board based on the financial commitment requirements. NTCs will only be issued for approved projects within the financial commitment horizon, which only includes projects for which funds are to be expended within four years. Also, any NTC issued in January 2012, would be from the 2011 SPP Transmission Expansion Plan (“STEP”) and not the 2010 STEP.

D. Novation

SPP further appreciates the concerns raised in the Staff Report related to novations. SPP would again like to reassure the Commission that it is dedicated to addressing such concerns and is actively working to develop processes and procedures related to novations. The Commission Staff made a number of recommendations related to novations that direct the Commission’s Regional State Committee (“RSC”) representative to act on such recommendations. With respect to such recommendations, SPP welcomes and appreciates the Commission Staff’s recommendations and opinions and agrees that the RSC is the appropriate place for these issues to be raised. As always, any stakeholder concerns should be raised and addressed through SPP’s open and transparent stakeholder process.

E. Commission Staff Recommendations

The Staff Report made a number of recommendations, most of which were directed to be handled through the RSC. As with the recommendations related to novations, SPP agrees that the RSC is an appropriate forum for the Commission to raise any issues or concerns it may have. As always, SPP encourages all parties, including the Commission, to assess all avenues within the SPP stakeholder process for expressing its concerns on these various issues of importance. However, participation in the SPP stakeholder process and putting these issues up for discussion before the RSC is the recommendation of SPP.

Respectfully Submitted,

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