

Exhibit No.: _____
Issue: Policy Issues Related to Southwest Power Pool
Witness: Richard A. Wodyka
Type of Exhibit: Direct Testimony
Sponsoring Party: Southwest Power Pool, Inc
Case No.: EO-2006-0141
Date Testimony Prepared: September 30, 2005

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

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

FILED²
JUN 05 2006
Missouri Public
Service Commission

Exhibit No. 6
Case No(s). EO 2006-0141
EO-2006-0141
Date 5-12-06 Rptr RF

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

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

3
4 **II. QUALIFICATIONS**

5
6 **Q. PLEASE DESCRIBE YOUR WORK HISTORY.**

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

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

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

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

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

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

12
13 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.**

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

17
18 **III. GENERAL OBSERVATIONS OF THE SPP COST-BENEFIT ANALYSIS**

19
20 **Q. WHAT IS YOUR OVERALL ASSESSMENT OF THE SPP COST-
21 BENEFIT ANALYSIS?**

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

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

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

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

- 10 1.) Evaluate the costs and benefits that would accrue from the consolidation of
- 11 SPP services and functions, and
- 12 2.) Evaluate the costs and benefits of SPP's proposed implementation of an
- 13 Energy Imbalance Services Market.

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

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

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

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

15 **IV. COMPARISON TO OTHER SIMILAR STUDIES**

16
17 **Q. HOW DOES THE SPP ANALYSIS COMPARE TO OTHER INDUSTRY**
18 **STUDIES?**

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

- 22 1.) The SPP analysis is comparable to other referenced studies in its use of a
23 production cost evaluation technique as the primary analysis methodology.
24 2.) Another important similarity in all but one of these studies is that the
25 primary purpose was to determine the economic value (benefits and costs)
26 of an RTO's proposed course of action. That determination aids the
27 interested regulatory agency in evaluating a critical policy question. The
28 policy question being addressed is: "What is the value of RTOs considering
29 the specific functions they perform?" This general question was similar
30 across all the referenced studies except the ERCOT study. This particular
31 study, while it used the same production cost methodology, was performed

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

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

22
23 **Q. WHAT IS THE VALUE OF COMPARING THE SPP ANALYSIS TO**
24 **OTHER PUBLICLY AVAILABLE STUDIES?**

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

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

1 information is relevant to the national and regional debate on the RTO policy
2 question, it is also relevant in this specific proceeding for the Missouri Public
3 Service Commission to recognize the value, in terms of reliable operations and
4 economic efficiency that other regions of the country have placed on RTOs.
5

6 **V. THE STUDY ASSUMPTIONS**
7

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

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

19 The SPP specific assumptions for this analysis were selected to most
20 accurately utilize the various existing data sources after discussions between
21 CRA, CBTF, and SPP staff. The critical energy data and modeling assumptions
22 for this analysis were: hourly load values; fuel forecasts; generation bids;
23 transmission system configuration; environmental adders; generation additions
24 and retirements; external region supply; and dispatch-able demand. In performing
25 any complex technical analysis such as that employed for this study, it is clearly
26 understood that changing any one of these assumptions can and often would have
27 a significant impact on the overall results.
28

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

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

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

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

31
32
33 **VI. THE ANALYSIS BENEFITS AND COSTS**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32

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

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

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

19
20 **VII. THE QUALITATIVE ASSESSMENT OF THE ENERGY IMBALANCE**
21 **SERVICES MARKET**

22
23 **Q. PLEASE COMMENT ON THE QUALITATIVE ASSESSMENT OF THE**
24 **ENERGY IMBALANCE SERVICES MARKET.**

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

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

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

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

8
9 **VIII. THE QUALITATIVE ASSESSMENT OF MARKET POWER**

10
11 **Q. PLEASE COMMENT ON THE QUALITATIVE ASSESSMENT OF**
12 **MARKET POWER.**

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

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

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

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

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

3
4 **IX. OTHER POTENTIAL IMPACTS NOT IDENTIFIED IN THE STUDY**

5
6 **Q. FROM YOUR ELECTRIC INDUSTRY EXPERIENCE, PLEASE**
7 **COMMENT ON ANY OTHER POTENTIAL IMPACTS THAT WERE**
8 **NOT IDENTIFIED IN THE REPORT THAT SHOULD BE**
9 **CONSIDERED IN THIS PROCEEDING.**

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

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

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

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

11 One of the most significant system operating problems today is controlling
12 transmission congestion on the grid. Today the SPP system operators use the
13 NERC TLR process to control transmission loadings in real-time operations. The
14 TLR process is a reliability based tool that provides the system operator with a
15 mechanism for controlling transmission congestion which at times is more costly,
16 less effective and less efficient than other market-based transmission congestion
17 management tools used in other regions. Since 2000, the number of TLR events
18 in the SPP region has continued to escalate. In 2001 there were 83 TLR events, in
19 2002 – 151 TLR events, in 2003 – 226 TLR events, and in 2004 the number had
20 grown to 308 TLR events. The use of the transmission grid continues to evolve
21 with more and more inter-regional economic transactions being scheduled over
22 greater distances. The system operator needs better and more sophisticated
23 operating tools to maintain reliability and to provide cost-effective transmission
24 congestion control. The operation of the SPP Energy Imbalance Services market
25 is an important step in providing the system operator with better real-time
26 operating information and providing the foundation for developing a more
27 sophisticated transmission congestion control mechanism in the next phase of the
28 SPP market development.

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

1 electric industries infrastructure as well as investor confidence. The improved
2 coordination through the SPP Regional State Committee in establishing a region
3 wide policy on the implementation of the Energy Imbalance Services market, cost
4 allocation and other issues has gone a long way in setting a definitive course of
5 action for the SPP region and minimizing this uncertainty going forward. The
6 Missouri Public Service Commission approval of the KCPL and EDE
7 applications is another critical step for moving this entire process forward and
8 helping to eliminate some uncertainty associated with the SPP region today.
9

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

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

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

- 20 1.) FERC's Order 2000 requires that RTO services include the operation of an
21 open non-discriminatory Energy Imbalance Services market. Without the
22 implementation of this market, SPP is faced with being non-compliant to the
23 FERC order. This also sets up a direct conflict between Federal and State
24 jurisdictions which could lead to resolving this issue through a costly legal
25 battle in the courts.
- 26 2.) The implementation of the Energy Imbalance Services market would provide
27 the SPP region with quantifiable and qualitative cost savings as documented
28 in the CRA report findings. Without the operation of the market almost all
29 the quantifiable and qualitative potential savings identified in the CRA report
30 findings would be lost.

- 1 3.) The implementation of the Energy Imbalance Services market will provide
2 energy price transparency. Without the market the participants and regulators
3 are left to guess the real prices of energy across the SPP region.
- 4 4.) The implementation of the Energy Imbalance Services market will provide
5 an open market that eliminates the current practice of requiring the market
6 participants to pay a penalty for energy imbalances. Without a market the
7 existing Transmission Owners would continue to have an advantage by using
8 their inadvertent energy to cover for their energy imbalances. SPP would be
9 faced with developing some other solution to this situation absent the
10 operation of the Energy Imbalance Services market.
- 11 5.) The implementation of the Energy Imbalance Services market provides the
12 foundation for more effectively and efficiently managing transmission
13 congestion across the SPP region in real-time operations. Without the market
14 SPP is left with the current TLR process to manage transmission congestion
15 which at times is more costly, less effective and less efficient than other
16 market-based transmission congestion management tools employed in other
17 regions.
- 18 6.) The implementation of the Energy Imbalance Services market will enable
19 SPP to then proceed with the next step in the development of competitive
20 SPP markets as planned. This next step would be the development and
21 *implementation of market-based ancillary services*. Without the
22 implementation of the Energy Imbalance Services market SPP would be
23 faced with a significant change in direction and would need to reevaluate all
24 its proposed market plans resulting in further delays and likely more costs.

25
26 **X. OTHER POTENTIAL BENEFITS NOT IDENTIFIED IN THE STUDY**

27
28 **Q. FROM YOUR ELECTRIC INDUSTRY EXPERIENCE, PLEASE**
29 **COMMENT ON ANY OTHER POTENTIAL BENEFITS THAT WERE**
30 **NOT IDENTIFIED IN THE REPORT THAT SHOULD BE**
31 **CONSIDERED IN THIS PROCEEDING.**

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

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

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

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

31 1.) New generation supply has been attracted to the region when markets exist.

32 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

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

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

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

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

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

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

21 **XII. CONCLUSIONS**

22
23 **Q. WHAT CONCLUSIONS RELEVANT TO THIS PROCEEDING HAVE**
24 **YOU DRAWN FROM YOUR REVIEW OF THIS SPP COST-BENEFIT**
25 **ANALYSIS?**

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

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

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

13
14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

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

In the Matter of the Application of)
The Empire District Electric Company)
for Authority to Transfer Functional Control) Case No. EO-2006-_____
of Certain Transmission Assets to the)
Southwest Power Pool, Inc.)

State of _____)
County of _____) ss

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.

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.

Subscribed and sworn before me this day of September 2005.

My commission expires: _____

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
The Empire District Electric Company)
for Authority to Transfer Functional Control)
of Certain Transmission Assets to the)
Southwest Power Pool, Inc.)

Case No. EO-2006- 0141

AFFIDAVIT OF RICHARD A. WODYKA

State of Pa)
County of Bucks) ss

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 3 day of September 2005.


Notary Public

My commission expires: _____

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Laura Lee, Notary Public
Doylestown Boro, Bucks County
My Commission Expires Aug. 8, 2009
Member, Pennsylvania Association of Notaries

