

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeem G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Southwest Power Pool, Inc.

Docket No. ER06-729-001

ORDER CONDITIONALLY APPROVING TARIFF REVISIONS

(Issued October 19, 2006)

1. In this order, we conditionally approve Southwest Power Pool, Inc.'s (SPP) Open Access Transmission Tariff (OATT) revisions that modify the loss compensation provisions of Attachment M and Attachment AE to SPP's OATT to reflect SPP's proposed Energy Imbalance Service (EIS) market to become effective as set forth below.¹ SPP is required to provide additional specificity in the SPP OATT and an illustrative example explaining its loss compensation procedures with respect to self-provision of losses for into and within transactions.

Background

2. On June 15, 2005, SPP made a filing (June 15 Filing) to establish EIS markets within SPP's footprint. As part of the June 15 Filing, SPP proposed certain modifications to its loss compensation procedures for energy losses in Attachment M to its OATT. On September 19, 2005, the Commission issued an order² that rejected the June 15 Filing, including the modifications to the loss compensation procedures, and provided guidance encouraging SPP to explain its loss compensation procedure in more detail. In part, the

¹ SPP's proposed EIS market is a real-time energy imbalance market that will implement least cost security constrained economic dispatch to develop Locational Imbalance Prices (LIP). An LIP is the market clearing price at a specific location, which is equivalent to the marginal cost of serving load at that location. For simplicity, an LIP is referred to in this order as the market price.

² *Southwest Power Pool, Inc.*, 112 FERC ¶ 61,303 (September Order), *order on reh'g*, 113 FERC ¶ 61,115 (2005).

Commission stated, “SPP should explain the rationale for settling losses based on the sink nodal price instead of the source nodal price, and demonstrate that no over- or under-recovery will occur by using the sink nodal price.”³

3. SPP filed a more fully developed loss compensation procedure on March 14, 2006 (March 14 Filing). In the March 14 Filing, SPP proposed two major revisions to the existing loss compensation procedure.⁴ First, when financially settling losses, SPP proposed to use market prices to determine losses for all transactions instead of using the Houston Ship Channel gas price as a proxy for the market price. SPP stated that this change more accurately represents the value of the loss energy because actual market prices are used instead of a proxy for market prices. The other major revision involved the methodology for settling self-supplied losses associated with through and out transactions. SPP proposed to arrange to have the loss energy delivered to load in the control area of a designated Transmission Owner in real-time and charge that Transmission Owner for the energy delivered at a price equal to the market price of the settlement location that represents the price associated with service to the Transmission Owner’s native load.⁵ SPP will then distribute the revenue collected to the Transmission Owners deemed to have actually provided the energy losses to compensate them for the transaction.⁶

4. In response to the Commission’s concern expressed in the September Order regarding potential over- or under-recovery of revenues from using the sink market price instead of the source market price, SPP proposed reflecting any such over- or under-recovery in the revenue neutrality uplift in Attachment AE.

³ See September Order at P 63 for a more detailed description of the Commission’s guidance regarding loss compensation.

⁴ SPP did not propose any changes to the calculation of the transmission customer’s loss responsibility applicable to each transaction. The network customer’s loss responsibility for network loads connected to the transmission system will continue to be determined by multiplying the zonal loss factor and the energy delivered within that zone by the network customer. For point-to-point customers and network customers with network load not connected to the transmission system, the loss responsibility continues to be determined by weighting the zonal loss factor of each zone impacted by the transaction by the amount of the transaction’s impact.

⁵ Original Sheet No. 178A, First Revised Sheet No. 179, Article IV.B.2, Attachment M, Fourth Rev. Vol. No. 1.

⁶ The cost incurred by the Transmission Owners to provide the service is calculated using SPP loss matrix in the same manner as is used for financial settlement.

5. In the Commission's order dated, May 11, 2006,⁷ the Commission conditionally accepted SPP's proposed loss compensation procedure including the two major revisions, identified above. The Commission stated that its acceptance was based in large part on the illustrative examples, supplied by SPP, because Attachment M to SPP's OATT still did not provide sufficient detail as to how the loss compensation procedure operates. The Commission directed SPP to provide additional detail and clarity to Attachment M so that the rates SPP is charging under the loss compensation procedure are clear.

6. With respect to the uplift charge, the Commission conditionally accepted subjecting any over- or under-recovery in the loss compensation procedure to the revenue neutrality uplift charge in section 5.6 of Attachment AE. However, since other regions of the country had experienced larger-than-expected uplift charges, the Commission required SPP to make a filing one year after the commencement of the EIS market detailing the amount of the revenue neutrality uplift payments associated with losses for Commission review.

7. Moreover, the Commission found in the May Order that the text of Attachment M was vague as to which transactions would have over- or under-recoveries necessitating the revenue neutrality uplift charge. For example, for into and within transactions, Attachment M stated merely that losses were priced in conjunction with the operation and settlement of the EIS market as described in Attachment AE. Whereas, for self-supplied losses associated with through and out transactions, Attachment M states explicitly that section 5.6 of Attachment AE will apply.

8. Further, the May Order found the text of Attachment M appeared to be inconsistent with SPP's transmittal letter. For example, SPP's March 14 Filing transmittal letter stated that the revenue neutrality uplift charge in section 5.6 of Attachment AE would address the issue of over- and under-recoveries for into and within transactions but that it would be unnecessary for self-supplied losses associated with through and out transactions. Therefore, in the May Order the Commission required SPP to clarify Attachment M to explicitly state which transactions would have over- or under-recoveries that would be subject to section 5.6 of Attachment AE.⁸

9. SPP submitted a compliance filing on August 1, 2006 (August 1 Filing) to address the Commission concerns in the May Order. SPP's compliance filing is discussed below

⁷ 115 FERC ¶ 61,167 (2006) (May Order).

⁸ Among other things, the Commission also required SPP to make certain stylistic, non-substantive edits; explain for self-supplied losses associated with through and out transactions how Transmission Owners receiving the loss energy would be designated; and explain how SPP will determine the market price a receiving Transmission Owner must pay if the Transmission Owner has native load in more than one settlement location.

in more detail, as relevant. SPP requests an effective date of November 1, 2006, instead of the previously requested October 1, 2006, effective date because the SPP EIS market has been delayed until November 1, 2006. Subsequently, SPP has announced that the market will be delayed further to December 1, 2006

Details of the Filing

10. SPP made certain limited revisions to Attachment M and Attachment AE including the minor stylistic corrections required by the May Order.⁹ The substantive revisions for into and within transactions include clarification that the transmission customer may settle losses by physical delivery or financially and only financially settled losses (instead of all losses) will be priced in conjunction with the operation and settlement of the EIS market.

11. The substantive revisions for through and out transactions include a reference in Article IV.B.1 of Attachment M, which deals with the Transmission Customer's optional annual purchase of loss energy for through and out transactions, to new section 1.2.2(d) of Attachment AE. New section 1.2.2(d) requires Transmission Owners to specify a single load Settlement Location to be utilized for purposes of accounting for losses associated with through and out transactions.¹⁰ This section addresses which market price a Transmission Customer must pay if the Transmission Owner has native load in more than one settlement location.¹¹

12. In Article IV.B.2 of Attachment M, which addresses the self-provision of losses for through and out transactions, SPP has changed the entity to whom the Transmission Provider must deliver losses and who must pay for the losses from a designated Transmission Owner to a Designated Balancing Authority. New section 1.3.8 of Attachment AE describes how the Designated Balancing Authority for through transactions is selected each year and provides that the Designated Balancing Authority associated with transactions out of the SPP Region shall be the Balancing Authority associated with the transaction Point of Receipt. Article IV.B.2 also requires Transmission Owners who receive revenue for the loss energy they have supplied to

⁹ May Order at n.11.

¹⁰ Second Revised Sheet No. 626.

¹¹ See May Order at P 15.

identify a Settlement Location pursuant to new section 1.2.2(d) of Attachment AE for the calculation of that revenue. Last, in Article IV.B.2 of Attachment M, certain payments were given names¹² to facilitate usage.

Notice of the Filing and Responsive Pleadings

13. Notice of SPP's August 1 Filing was published in the *Federal Register*, 71 Fed. Reg. 47,197 (2006), with interventions and protests due on or before August 22, 2006. No interventions or comments were received.

Discussion

14. While SPP has complied with some of the requirements of the May Order, it has yet to address others. Therefore, we will conditionally accept SPP's filing subject to SPP making an additional compliance filing as discussed below.

15. In the September Order, the Commission rejected SPP's proposed OATT revisions, including the revisions to the loss compensation procedure; however, the Commission provided guidance to SPP on how to improve the proposal for subsequent filings. With respect to loss compensation, the Commission stated, among other things, that SPP should "demonstrate that no over- or under-recovery will occur by using the sink nodal price" instead of the source nodal price for the settlement of losses.¹³ In SPP's March 14 Filing, SPP responded to the Commission's concern by proposing to subject any over- or under- recovery to the revenue neutrality uplift.¹⁴ However, the Commission, in its conditional acceptance in the May Order, noted that SPP's proposal regarding using the revenue neutrality uplift as a way to remedy the Commission's concern expressed in the September Order about over- or under- recoveries needed further clarification to identify all transactions that would be subject to the uplift process.¹⁵

16. The Commission remains concerned that there may be over- or under- recoveries if losses are compensated at the sink market price. For example, for into and within transactions that settled financially, the sink market price may be \$40 while the source

¹² For example, section IV.B.2 states that "Each Transmission Owner will receive revenue ('Self-Provided Loss Credit')."

¹³ September Order at P 63.

¹⁴ March 14 Filing, Transmittal Letter at p 5.

¹⁵ May Order at P 17.

market price is \$30. SPP will receive \$40 for the loss and should pay out \$30 to the generators providing the loss energy. A larger payout would result in an over-recovery by the generators. However, SPP states in its transmittal letter in the August 1 compliance filing that when settled financially, “revenue from the sale of . . . loss energy [for into and within transactions] will be allocated to the entities that provided it through the EIS Market settlement process.”¹⁶

17. If the entire amount of the sink market price for the losses is allocated to the entities that provided the services, then those entities would over-recover their costs, which is the source market price. The entities providing the loss energy are entitled to the market price at the source locations. To allow such entities to receive an allocation of revenues above their source market price, would distort the price signals to those generators. Amounts collected in excess of the market price at the source should be allocated to load by placing them in uplift revenues. Therefore, the Commission directs SPP to modify the revenue distribution associated with the loss compensation so that providers of the service receive the source market price and any amount above the source market price is included in the revenue neutrality uplift process. In this way, the Commission will ensure that no entity providing loss compensation service will over-recover its costs. SPP is also directed to modify Attachment M to make the revenue distribution, as explained above, clear.

18. Moreover, the May Order directed SPP to clarify and fully explain the revenue distribution.¹⁷ SPP states in its transmittal letter that the “entities that provide” the financially settled into and within losses will receive an allocated share of the revenues from SPP. However, it remains unclear who these “entities” are. We are concerned that all generators (*i.e.*, generators affiliated with Transmission Owners as well as unaffiliated generators) providing loss compensation service receive their share of loss revenues. To exclude unaffiliated generators from receiving revenue for loss compensation service that they provide would not be comparable. We direct SPP to modify Attachment M to explain that all generators providing the loss compensation service (*i.e.*, generators affiliated with the Transmission Owners as well as unaffiliated generators) receive their share of the revenues for all into and within transactions. Similarly, for financially-settled and self-provided losses associated with through and out transactions, Attachment M states, “[e]ach Transmission Owner shall receive revenue equal to the loss energy deemed to be supplied by each Transmission Owner” with no provision for entities that provide loss service but are not Transmission Owners. Accordingly, we direct SPP to modify its revenue distribution process to ensure that all generators, regardless of their affiliation with Transmission Owners, receive revenue for providing loss compensation

¹⁶ Transmittal Letter at 6.

¹⁷ May Order at P 16.

service. SPP must make conforming modifications to Attachment M fully explaining how all generators, including unaffiliated generators, will receive their share of the revenue associated with providing loss compensation service.

19. Additionally, SPP has not complied with our requirement to make Attachment M clear with respect to physically-settled losses associated with into and within transactions.¹⁸ SPP states that the losses are delivered to the sink settlement location without any explanation as to steps taken to make that happen considering losses are lost during the transaction.¹⁹

20. Since SPP has advised the Commission that it expects to commence operations of its EIS markets on December 1, 2006, the Commission is interested in avoiding numerous compliance filings on this subject. Therefore, SPP is required to address the concerns above and add as an appendix to Attachment M illustrative examples like the examples it provided the Commission in the March 14 Filing that show the operation and settlement of SPP's loss compensation procedure. Additionally, SPP is directed to include in a second, separate appendix to Attachment M additional illustrative examples for into and within transactions. At this time, the Commission believes that adding illustrative examples as appendices to Attachment M and addressing the other concerns as expressed above will help address the Commission's concern for additional detail as to the operation and settlement of losses in Attachment M. However, upon review of SPP's next compliance filing, the Commission may require further explanation in SPP's OATT if necessary.

21. Finally, in the May Order we established the effective date for the EIS market-related loss compensation procedure as the effective date of the EIS market, which was expected to be October 1, 2006, or on such later date as SPP's EIS market becomes effective. Since the effective date of the EIS market is now expected to be December 1, 2006, or later, we shall establish a revised effective date for the EIS market-related loss compensation procedure to be December 1, 2006 or such later date as SPP's EIS market becomes effective.

¹⁸ See May Order at P 16.

¹⁹ The loss provisions for self-supplied through and out transactions are more clear on this point.

The Commission orders:

(A) SPP's August 1, 2006 Filing is conditionally accepted to be effective December 1, 2006, or on such later date as SPP's EIS market becomes effective, subject to the conditions in the body of this order and to further Commission orders addressing SPP's EIS market and Attachments AE and M.

(B) SPP must file the explanations and OATT revisions required in the body of this order in a compliance filing within 30 days of the date this order is issued.

(C) SPP must make a filing one year after commencement of its EIS market detailing the monthly amount of the neutrality uplift payments associated with losses for into and within transactions and through and out transactions.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.