Eastern Seams Technical Conference **March 29, 2007**
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I would first like to thank the Commissioners and the Commission for allowing me to speak to the issues that are faced by Southwest Power Pool and its seams with other parties. I am Carl Monroe, Sr. VP, Operations and Chief Operating Officer for Southwest Power Pool. I have direct responsibility for Operations, Information Technology, Market Design and Analysis.

Seams issues are not new to the operation of the Bulk Electric System. Early issues with operation of the interconnected transmission systems required discussion and resolution of a number of seams issues. Most recently, the seams issues have focused on the changes required by open access to the transmission system as well as the implementation of regional transmission providers and market operations. I would like to address Southwest Power Pool's current status with seams issues, some suggestions on improving seams management in operations and planning, and some equity issues between seams parties.

In addition to the Eastern Interconnection, SPP has seams with ERCOT and the West. The issues related to these regional seams are minimal as we are connected through back to back DC ties and all parties continue to work to improve the seams management between interconnections. There are currently no significant issues.

Within the Eastern Interconnection, SPP has seams with a variety of parties. SPP plays a number of roles in the operation and planning of the Bulk Power System which must be considered in discussions about seams issues. For instance, as a Transmission Provider, SPP has seams with other Transmission Providers. As a Reliability Coordinator, SPP has seams with other Reliability Coordinators, which can be different from the seams with other Transmission Providers. SPP also has seams based on its roles as a Regional Reserve Sharing group, a Market Operator, a Regional Reliability Organization, a Contract Service provider of reliability and tariff services, and a Regional Transmission Planner. Relevant Seams Agreements have proven very beneficial to reliability and economic operations; SPP would like to have agreements with each seam partner. We do have a comprehensive Seams Agreement with the Midwest ISO, which continues to evolve as our respective operations evolve. We have a limited Seams Agreement with Associated Electric Cooperative, Inc., but hope to expand it to a comprehensive seams agreement. We need comprehensive seams agreements with Entergy and MAPP.

As with the MISO/SPP Seams Agreement, comprehensive seams agreements include a wide variety of provisions that cover areas of reliability, economics, and equity. MISO and SPP are committed to not only coordinate activities but also to assist each other in the resolution of issues of reliability and equity. For example, for reliability, this agreement covers the exchange of real-time and projected operating data, including real-time SCADA data, operating models, extensive operation planning data, joint operations in emergencies, and voltage and reactive power coordination. For economic and equity and to coordinate ATC/AFC, we exchange generator outage and dispatch order, transmission outage schedules, interchange schedules, transmission service requests, load data, calculated firm and non-firm AFCs, flowgate ratings, dynamic schedule flows, configuration changes, coordinate transmission and generation outages, and TRM

coordination. The Congestion Management Process principles are used for equity sharing of constrained facilities and even Market-to Market economic payments to minimize the cost of relieving constraints. Note also that the MISO/SPP Seams Agreement has an extensive section on Coordinated Regional Transmission Expansion planning that goes beyond the Regional Participation, Economic Planning, and Cost Allocation Principles in the Commission's most recent Order 890. It contemplates optimizing the needed transmission planning for the benefit of both parties as well as allocation of costs of network upgrades between the RTOs. Lastly, the MISO/SPP Seams Agreement covers market monitoring, schedule checkouts, and inadvertent treatment between operators.

NERC, through its oversight of reliability standards, has required neighboring Reliability Coordinators to have Seams Agreements as part of the qualification to perform their duties. Although this is a good first step, the current requirements are general and will need to expand to cover all seams issues related to reliability. There need to be comprehensive and consistent reliability standards to support these agreements and ensure that each agreement is holistic.

As NERC reliability standards have developed, there has been significant effort to ensure that the many players responsible for the reliability of the Bulk Electric System are included in the process. There are however, instances where the reliability standards do not treat parties operating a market comparable to non-Market Operators. For instance, the calculations that Market Operators perform for Market Flow include all impacts on constrained facilities down to zero percent, while non-Market Operators in the Interchange Distribution Calculator use impacts down to five percent. As another example, Market Operators use current and accurate data to calculate their impacts on the system rather than the assumptions the Interchange Distribution Calculator uses for non-Market Operators. We would like the Commission to consider assisting NERC in leveling this playing field. In addition, non-Market Operators would benefit because they would be able to use and rely upon accurate data from their neighbor Market Operators rather than estimates.

Additionally, the six Regional Reliability Organizations (including SPP), that cover the Eastern Interconnection signed an agreement last year that coordinates the assessment of each region's transmission plans over the entire Eastern Interconnection. The "Eastern Interconnection Reliability Assessment Group – ERAG" will work jointly to periodically review regional generation and transmission expansion programs. ERAG allows each party to be involved in each other's case development, studies and regional meetings if that Party is impacted. The ERAG will also minimize duplication of effort where there is overlap in planning and will ensure consistency and in regional plans leading to improved reliability.

SPP participated with the North American Energy Standards Board (NAESB) in the original development of the library of seams issues as reflected in the Seams Agreements discussed above. As a member of the ISO/RTO Council, SPP will be participating in the current NAESB effort to reexamine the library and work for business practice standards

on the high priority items. This could provide another forum to ensure the Seams Agreements are comprehensive and standard, including using the principles of the Congestion Management Process in business practices that would be responsive to the Commission for ATC/AFC consistency and coordination.

As part of its application to be recognized as a Regional Transmission Organization, the Commission required SPP to enter into the above mentioned seams agreement with Midwest ISO. SPP was also involved in the initial negotiations between the Midwest ISO and PJM on their seams agreement. As shown above, these agreements cover all aspects of operations and planning at these seams, and evolve as operations at each organization evolve. SPP supports these types of comprehensive seams agreements and encourages that the requirement to enter them be extended to all entities with Open Access Transmission Tariffs, including those entities with reciprocal OATTs.

In particular, the use of the Congestion Management Process (CMP) principles has provided great benefits to the operation of the Bulk Power System. This has proven true for both Market and non-Market Operators. These principles require an entity to look for impacts beyond its boundaries, quantify the impacts of all flows, leverage the real-time and near-term forecasted data for higher accuracy, and redispatch to protect its facilities. This coordination occurs up to 18 months prior to real-time resulting in greatly enhanced coordination of operations. Also, the CMP can be used to facilitate economic assistance and redispatch between operations whether they are Market or non-Market. SPP would encourage these principles be in all Seams Agreements between Transmission Providers.

As previously noted, these seams agreements evolve with the operations of the parties, and continuously improve. Issues that are currently being discussed include: coordination and possibly compensation for deferral of transmission outages; inadvertent sharing or compensation; a Congestion Management Process in the planning time frame; and how to account for transmission capacity improvements through upgrades or new generation resources.

SPP is pleased with the focus on regional planning in FERC Order 890. SPP's cost allocation method, as approved by the Commission, has increased the number of transmission expansion projects in the SPP region, providing both reliability and economic benefits. SPP in its role as Entergy's Independent Coordinator of Transmission, has an obligation to not only coordinate Entergy's plans with neighboring Transmission Providers, but also to look for particular facilities that would benefit the customers of Entergy and its neighbors as well as cost allocation sharing methods to facilitate their construction. A standardized cost allocation method between Transmission Providers would positively impact the benefits of the coordination required in Order 890.

SPP launched its Market Operations on February 1, 2007. We are now working on provisions to allow external generators to participate in the Energy Imbalance Market. This has raised the seams issue of whether generators external to the market footprint will pay administrative fees to SPP proportional to the benefits that they receive. This is currently under debate among SPP's stakeholders.

As the Commission contemplates help in resolving these seams issue, SPP has also been concerned about the significant difference in FERC fees paid by its members under the RTO versus trying to encourage other companies to reap the benefits of RTO participation. In SPP's case the increase in FERC fees applicable to our members grew from $1.4 million in the year before we became an RTO to in excess of $9.4 million in the year we first began paying the fees as an RTO. We are seeing the parallel increase in FERC fees for potential members joining the RTO. Those increases for RTO membership are not insignificant as we attempt to hold the line on the RTO costs and attract new members.

Again, comprehensive and standard Seams Agreements, a level playing field for Market and non-Market Operators, and extending the principles of the Congestion Management Process would advance the reliability and equity of the Bulk Power System.