



Federal Energy Regulatory Commission
October 20, 2011
Open Commission Meeting
Staff Presentation
Item E-12

"Good morning, Mr. Chairman and Commissioners.

We present to you Item E-12, a draft order addressing requests for rehearing of the June 17, 2010 order accepting Southwest Power Pool's, or SPP's, Highway/Byway transmission cost allocation methodology. The Highway/Byway methodology allocates costs for new transmission facilities based on a facility's voltage. Specifically, the costs of facilities operating at 300 kV and above, which SPP refers to as Extra High Voltage facilities, are allocated 100 percent across the SPP region on a postage stamp basis; the costs of facilities operating above 100 kV and below 300 kV are allocated one-third on a regional postage stamp basis and two-thirds to the zone in which the facilities are located; and the costs of facilities operating at or below 100 kV are allocated 100 percent to the zone in which the facilities are located.

In the June 17 Order, the Commission found that SPP demonstrated that its proposal was just and reasonable by making a two-step demonstration. First, it offered the results of two analyses demonstrating that Extra High Voltage facilities in the SPP region are used more for regional purposes and that lower voltage facilities are more local in nature. Second, SPP described the benefits that accrue from regional use of Extra High Voltage facilities including congestion relief; transmission system unloading and regional reliability and stability; improvement of the interconnection and transmission service request processes; facilitation of public policy goals such as increasing use of renewable energy resources; and other economic benefits.

Rehearing parties raise a number of issues including that SPP's Highway/Byway Methodology does not satisfy the cost causation principle as it has been articulated by the Commission and the courts. The draft order rejects this claim by finding that the Seventh Circuit's *Illinois Commerce Commission v. FERC* decision does not alter the analytical framework employed by the Commission to ensure that transmission cost allocation methodologies are consistent with the cost causation principle. The draft order finds that under the cost causation principle, "it has been traditionally required that all approved rates reflect to some degree the costs actually caused by the customer who must pay them." The draft order also finds that the courts, recognizing that cost allocation is "not a matter for the slide-rule," have never "required a ratemaking agency to allocate costs with precision; rather, "the cost allocation mechanism must not be 'arbitrary or capricious' in light of the burdens imposed or benefits received."

The draft order affirms that SPP provided sufficient evidence to demonstrate that the Highway/Byway Methodology is just and reasonable and not unduly discriminatory or preferential. The draft order finds that SPP's two analyses demonstrate that Extra High Voltage facilities in the SPP region are used more for regional purposes and that lower voltage facilities are more local in nature. In addition, the draft order finds that SPP operates its transmission system and energy market on a single-system regional basis to reliably and efficiently integrate resources to serve loads throughout its entire footprint and that the strong regionally-integrated Extra High Voltage transmission network that results from this process provides benefits to all that are interconnected to it. The fundamental benefit of the Extra High Voltage facilities supporting regional power flows is the flexibility they provide to deliver energy and operating reserves more efficiently and reliably within

and between balancing areas throughout the SPP footprint. The draft order acknowledges that although such benefits may be more appreciated at different times by different customers with respect to different groups of transmission projects that enter the plan, these benefits are experienced by all SPP members and accrue over time. The draft order finds that by distinguishing between the types of facilities that are used on a regional and zonal basis, the Highway/Byway Methodology will ensure that allocations of costs are roughly commensurate with associated benefits.

Accordingly, the draft order affirms the Commission's finding that SPP provided probative evidence to support a determination that the Highway/Byway Methodology is just and reasonable and not unduly discriminatory and denies rehearing."