

137 FERC ¶ 61,068  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;  
Philip D. Moeller, John R. Norris,  
and Cheryl A. LaFleur.

Southwest Power Pool, Inc.

Docket No. ER11-3627-000

ORDER CONDITIONALLY ACCEPTING TARIFF REVISIONS AND  
DIRECTING COMPLIANCE FILING

(Issued October 20, 2011)

1. In this order, we conditionally accept Southwest Power Pool, Inc.'s (SPP) proposed revision to its Open Access Transmission Tariff (Tariff) to reflect a new compensation mechanism for out of merit energy dispatch (OOME) during emergencies.<sup>1</sup> We find SPP's proposal, as modified, to be a just and reasonable mechanism to fully compensate resources for responding to OOME directives during emergencies. We direct SPP to make a compliance filing providing for a cap on the compensation to generators for responding to OOME directives.

**I. Background**

2. SPP has administered a centralized energy imbalance services (EIS) market since February 1, 2007, pursuant to Attachment AE of the Tariff. On May 24, 2011, SPP filed revisions to Attachment AE of the Tariff to provide a compensation mechanism for resources that respond to reliability directives from SPP to resolve emergency conditions. (SPP May 24 Filing).<sup>2</sup> Specifically, when emergency conditions arise, SPP may issue a directive to an online resource in the SPP EIS market to increase or decrease its output to address the emergency condition.<sup>3</sup> SPP states that now, when a resource receives an

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<sup>1</sup> These OOME directives are called "out of merit energy dispatches" because they are used to respond to emergency conditions, not economic conditions, and as such these dispatch instructions are not reflected in security constrained economic dispatch.

<sup>2</sup> According to SPP's market protocols, OOME directives are issued when there are system emergency conditions that the EIS market cannot resolve with security constrained economic dispatch. SPP Market Protocols, section 9.2.2.

<sup>3</sup> *Id.*

OOME directive, it must either make a sale into the EIS market (i.e., increase the output of the resource) or make a purchase from the EIS market (i.e., reduce the output of the resource).<sup>4</sup> Transactions resulting from OOME directives are currently settled at the locational imbalance price (LIP).

## II. SPP's Filing

3. SPP proposes to change its compensation arrangement for those who receive OOME directives. First, if an OOME directive results in an increase in a resource's output, SPP will compensate the resource at the higher of the LIP or the resource's offer curve price at the OOME dispatch level for the amount of the increased output that exceeds the resource's scheduled output for the duration of the OOME instruction. If the offer price exceeds the LIP, the difference will be recovered through the revenue neutrality provisions of section 5.6 of the Tariff.<sup>5</sup> In the second case, when an OOME directive results in a reduction in a resource's output, the resource will pay the lesser of the LIP or the resource's offer curve price at the OOME dispatch level. If the LIP exceeds the resource's offer price, the difference between what the resource pays and the LIP will be recovered through the revenue neutrality process.<sup>6</sup> Consequently, SPP states that the resource will not be subject to a LIP price that is higher than its offer curve price for purchases that are required because of a resource's compliance with an OOME dispatch directive to reduce its output.<sup>7</sup>

4. SPP claims that its OOME proposal is just and reasonable because it will ensure that resources that respond to OOME directives will be made whole for their responses regardless of whether they sell additional output into the EIS market or make a purchase from the EIS market.<sup>8</sup> Because OOME events are rare, SPP adds that it does not expect that its proposal will cause a significant change in the EIS market. SPP argues that uplift

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<sup>4</sup> SPP May 24 Filing at 4.

<sup>5</sup> The amount recovered is calculated by multiplying the difference between the offer price and the LIP by the lesser of the OOME instruction or actual output minus the resource's scheduled output. *Id.* at 3.

<sup>6</sup> The amount recovered is calculated by multiplying the difference between the LIP and the offer price by the resources scheduled output minus the greater of the OOME dispatch instruction or the actual output. *Id.*

<sup>7</sup> *Id.* at 3-4.

<sup>8</sup> *Id.* at 4.

to the market is appropriate because remedying the emergency condition benefits all market participants.<sup>9</sup> SPP requests an effective date of July 24, 2011.

### **III. Notice of Filings**

5. Notice of SPP's filing was published in the *Federal Register*, 76 Fed. Reg. 31,600 (2011), with comments, interventions, and protests due on or before June 14, 2011. Westar Energy, Inc. and Golden Spread Electric Cooperative, Inc. filed timely motions to intervene. American Electric Service Power Corporation filed a motion to intervene out-of-time. Western Farmers Electric Cooperative (Western Farmers) filed a motion to intervene with comments in support of the filing. Xcel Energy Services Inc., on behalf of its affiliate Southwestern Public Service Corporation and the Empire District Electric Company (collectively, Joint Intervenors) filed a motion to intervene and protest.

6. On July 22, 2011, Commission staff issued a deficiency letter requesting further information from SPP. Notice of SPP's response to the deficiency letter was published in the *Federal Register*, 76 Fed. Reg. 54,764 (2011), with interventions and protests due on or before September 14, 2011. No comments were received.

### **IV. Responsive Pleadings**

7. Western Farmers comments that SPP's proposal will encourage operators to respond to emergency conditions, which will benefit all EIS market participants. Western Farmers adds that the proposed compensation formula is appropriate because it is narrowly tailored to apply only to the portion of energy above or below the resource's scheduled output that results from an OOME directive.<sup>10</sup> Moreover, Western Farmers states that the overall result should be acceptable because OOME events do not occur often, and the resulting EIS market uplift will not be significant.<sup>11</sup>

8. Joint Intervenors generally support the plan to compensate resources for responding to OOME directives. They state that uplifting the costs associated with payments to resources that respond to OOME directives via the revenue-neutrality uplift charge is reasonable because actions to improve reliability benefit all market participants.

9. However, Joint Intervenors assert that SPP should maintain a cost-based approach for the OOME directives such as it does for compensating resources that are redispatched or curtailed. Joint Intervenors object to market-based payments for OOME and state that SPP's proposed charges are unnecessary because resources that are redispatched to

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<sup>9</sup> *Id.*

<sup>10</sup> Western Farmers Comments at 3.

<sup>11</sup> *Id.*

relieve existing or potential transmission system constraints are adequately compensated according to their verifiable incremental or decremental costs.<sup>12</sup>

10. Joint Intervenors state that their concern results from limitations of the current market structure.<sup>13</sup> They state that the market is not intended to solve reliability problems and that SPP should manually dispatch resources for operational reasons. Joint Intervenors claim that manual dispatch raises two important issues.<sup>14</sup>

11. First, Joint Intervenors argue that some resources do not provide their full capability to the market, which affects the LIP. For example, Joint Intervenors state that the current EIS market design does not allow variable energy resources to offer a dispatchable range or offer-price curve, thereby requiring SPP to manually dispatch those resources outside of the market. Because these resources are unable to set prices in the market when dispatched down, Joint Intervenors argue that the LIP does not reflect an emergency/reliability directive issued by SPP. Additionally, with regard to conventional units (e.g., nuclear and coal), Joint Intervenors state that such units might only offer limited flexibility to the market. Joint Intervenors argue that SPP will have to issue an OOME directive that requires these units to decrease output below the offered minimum or increase the output above the offered maximum. Moreover, units might hold back capacity to provide ancillary services. Joint Intervenors state that these units can follow dispatch instructions because their units are able to lower or raise the output in case of an emergency, but such action is not reflected in the LIP.

12. Second, Joint Intervenors argue that the current market design does not allow access to the full range of offered capacity. Joint Intervenors state that SPP's current security constrained economic dispatch process is not designed to access emergency ranges or ramp rates, which only can be accessed through manual actions. Consequently, Joint Intervenors argue that LIP does not reflect the gravity of the emergency actions.<sup>15</sup>

## **V. Deficiency Letter and Response**

13. In the deficiency letter, Commission staff directed SPP to explain the OOME process, provide hypothetical examples of how resources are inadequately compensated under the existing process, and explain how the proposal would remedy such under-

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<sup>12</sup> Joint Intervenors Protest at 5.

<sup>13</sup> Joint Intervenors indicate that their concerns will be solved when SPP's proposed Integrated Marketplace begins in 2014. *Id.* at 5.

<sup>14</sup> *Id.* at 7.

<sup>15</sup> *Id.* at 6.

compensation.<sup>16</sup> Additionally, staff asked SPP to explain how it had addressed the Commission's market power concerns.

14. In its response to the deficiency letter, SPP states that OOME directives are issued as a last resort,<sup>17</sup> short-term solution to briefly mitigate system conditions that threaten the reliability of the transmission system more quickly than remedies available via the security constrained economic dispatch process. SPP states that OOME directive conditions are maintained only until an SPP EIS market dispatch directive can respond to the emergency condition.<sup>18</sup>

15. SPP explains that after the reliability coordinator declares an emergency, the reliability coordinator formulates the course of action and notifies the relevant balancing authorities and the SPP market operator. SPP notifies the affected market participants by telephone and enters an "OOME" into the market operation system. The market operation system sends an OOME directive for each affected resource for every interval the OOME is in place and the resource operator is expected to implement the OOME directive.<sup>19</sup> While this is happening the reliability coordinator issues a transmission loading relief (TLR) order and the balancing authority coordinates with the resource operators to ensure that appropriate actions are being taken.<sup>20</sup> SPP further explains that when the reliability coordinator determines that the emergency condition requiring the OOME directive has ended, the reliability coordinator notifies SPP and the balancing authorities. When SPP determines that the emergency has passed or is otherwise mitigated, it then notifies the appropriate market participants by phone that the OOME directive is terminated, the market operations system discontinues following the OOME directive, and the resource follows the new instruction in coordination with the balancing authority. The reliability coordinator also updates the status of the TLR and ends the

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<sup>16</sup> *Southwest Power Pool, Inc.*, Docket No. ER11-3627-000, *passim* (July 22, 2011) (deficiency letter).

<sup>17</sup> For example, SPP states that OOME directives are issued to address stability, thermal, or voltage concerns that threaten reliability. SPP typically uses violation relaxation limits to deal with reliability concerns resulting from thermal loading issues before issuing OOME directives. However, when the reliability concern involves a voltage problem that is not the result of a thermal loading issue, an OOME directive may be used without the use of violation relaxation limits. SPP August 24, 2011 Deficiency Response at 3 and 6.

<sup>18</sup> *Id.* at 3.

<sup>19</sup> *Id.*

<sup>20</sup> *Id.* at 4.

process. All settlement of OOME directives are currently done at the LIP just like other energy sold in the EIS market. SPP adds that it waives the uninstructed deviation charge for any resource that responds to an OOME directive.<sup>21</sup>

16. SPP provides a hypothetical example of how a resource would not be adequately compensated when directed to increase or decrease its output under the current OOME compensation arrangement.<sup>22</sup> In its example, SPP assumes the resource's scheduled output is 150 MW but prior to the OOME directive was dispatched above its schedule output at 170 MW and was setting the LIP at \$60/MW.<sup>23</sup> If the OOME directive required the resource to increase output from 170 MW to 225 MW, the resource will receive an additional \$3,300 of revenue (i.e., LIP of \$60/MW X 55 MW of additional generation). However, at the 225 MW level of output, the resource's offer curve may be at \$70/MW, which means that the resource incurred an additional \$3,550 of production costs (i.e., offer curve of \$70/MW X 55 MW of generation) as a result of the OOME, resulting in an under-recovery of \$250. SPP explains that the resource in this hypothetical example would be compensated for the difference between the offer curve of \$70/MW at the resource's output level in the OOME directive and the LIP of \$60/MW and the total amount of deviation from the schedule which is 75 MW (i.e., 225 MW OOME directive less 150 MW schedule).<sup>24</sup>

17. Similarly, SPP's hypothetical example shows that a resource is not now adequately compensated when it is directed to decrease output. In SPP's hypothetical, (1) the resource's scheduled output is 300 MW; (2) prior to the OOME directive, the resource is dispatched at 275 MW; and (3) the LIP is \$70/MW. If the resource, as a result of the OOME directive, is directed to produce 190 MW, the resource's offer curve would drop to \$60/MW. The resource would be required to buy 85 MW of additional energy from the EIS market at a price of \$70/MW, totaling \$5,950. However, because its offer curve is only \$60/MW at the 190 MW output level, it reduces its production costs by an amount less than \$5,950, resulting in an overall increase in costs for the resource. SPP explains that in this example it would compensate the resource for the difference between the LIP of \$70/MW and the offer curve of \$60/MW at the output level in the

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<sup>21</sup> *Id.*

<sup>22</sup> *Id.* at 4-5.

<sup>23</sup> SPP also assumes that the resource's actual output was equal to the OOME directive.

<sup>24</sup> SPP August 24, 2011 Deficiency Response at 4-5.

OOME directive times the amount the output level of the OOME directive (i.e., 190 MW) deviates from the schedule (i.e., 300 MW).<sup>25</sup>

18. SPP's response to the deficiency letter explains that the SPP market monitoring unit reviewed the proposed OOME compensation methodology before SPP filed it with the Commission and determined that the proposal, coupled with SPP's existing processes, adequately addresses market power concerns.<sup>26</sup> SPP states that due to the unique characteristics of OOME events, the ability of a resource to adjust its offer curve to take advantage of an OOME directive is highly unlikely. SPP states the OOME events are rare<sup>27</sup> and occur close to or during real-time, making OOME events unpredictable from a market participant's perspective. Further, SPP states that because OOME events are generally short in duration, lasting only for few dispatch intervals (i.e., 15 to 30 minutes), market participants will not have time to submit a change in their offer curves in an attempt to game an emergency. SPP explains that under Attachment AE of the Tariff and section 5.3 of the protocols, market participants are not permitted to adjust their offer curves less than 45 minutes before the operating hour.<sup>28</sup>

## **VI. Discussion**

### **A. Procedural Matters**

19. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the timely, unopposed motions to intervene serve to make the filers parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2011), the Commission will grant American Electric Power Service Corporation's late-filed motion to intervene given its interest in the proceeding, the early state of the proceeding, and the absence of undue prejudice or delay.

### **B. Commission Determination**

20. We will conditionally accept SPP's filing because we find it is a just and reasonable mechanism to compensate resources that respond to SPP's OOME directives. No party has contested the need to ensure that resources are adequately compensated for responding to OOME directives, or for including the costs of the make-whole provisions

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<sup>25</sup> *Id.* at 5.

<sup>26</sup> *Id.* at 9.

<sup>27</sup> SPP states that three OOME events have occurred during the past twelve months. *Id.* at 7.

<sup>28</sup> *Id.* at 9-10.

to the revenue neutrality uplift. In fact, all parties filing comments in this proceeding support these aspects of the proposed compensation mechanism.

21. SPP has satisfactorily demonstrated through the hypothetical examples provided in its response to the Commission's deficiency letter that the current practice of compensating resources for OOME directives at the LIP may not provide such resources with appropriate compensation. We agree that revisions are necessary to the current process to ensure that resources are appropriately compensated for following OOME directives.

22. In the response to the deficiency letter, SPP indicates that under its proposal, it will compensate the resource, subject to the OOME directive, but that the compensation provided to the resource could be more than the under-recovery experienced by the resource. As shown in the hypothetical examples provided by SPP in response to the deficiency letter, there are two general reasons for the compensation to be greater than the under-recovery. Under the proposal SPP will compensate resources subject to the OOME directive for all deviations from the schedule even if the resource was deviating from the schedule prior to the OOME directive being issued and already being compensated for such deviations in the energy market. SPP does not explain the reason it would provide make-whole payments for deviations that took place before an OOME directive. Additionally, if the resource's offer curve is higher than the LIP for any portion of the increase in output (or lower than the LIP for any portion of the decrease in output) from a schedule, SPP may compensate the resource at the offer curve for the entire deviation from the resource's schedule. SPP does not explain why it should use the offer curve for the entire increase or decrease in output from the schedule instead of using the offer curve for only that quantity of MW for which the offer curve was different than the LIP. These two aspects of the proposed compensation results in the resource being compensated for responding to an OOME directive at a level that is greater than the purported under-recovery.

23. For example, in SPP's hypothetical examples, pursuant to the existing OOME provisions the resource increasing output in response to an OOME directive under-recovers its costs by \$250, but SPP states that the resource would receive \$750 in return under the proposed OOME provisions. Likewise, pursuant to the existing OOME provisions the resource decreasing its output in response to an OOME directive under-recovers its costs by \$100 but receives \$1,100 under the proposed OOME provisions.

24. SPP states that the proposal is intended to "make-whole" the resources that respond to OOME directives.<sup>29</sup> While the Commission believes the resources should be made whole, the SPP proposal compensates resources that respond to an OOME directive for more than the amount of the under-recovery. Because SPP has not supported giving

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<sup>29</sup> SPP May 24 Filing at 3.

resources more compensation than necessary to make them whole, we will direct SPP to make a compliance filing with the Commission that caps the compensation under the proposal to the amount of the under-recovery caused by the OOME directive. We believe this cap on compensation will address the concerns of the Joint Intervenors about compensation for responding to OOME directives being greater than the incremental or decremental costs of the resource. In addition, because OOME directives are rare, we have no reason to believe this cap would be burdensome to implement.

The Commission orders:

(A) SPP's filing is hereby conditionally accepted for filing on the date requested as discussed in the body of the order.

(B) SPP is directed to file a compliance filing within 30 days consistent with the discussion in the body of the order.

By the Commission. Commissioner Spitzer is not participating.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.