BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF A SHOW CAUSE ORDER	**)**	
DIRECTED TO ENTERGY ARKANSAS, INC.	**)**	
REGARDING ITS CONTINUED MEMBERSHIP IN	**)**	
THE CURRENT ENTERGY SYSTEM AGREEMENT,	**)**	**Docket No. 10-011-U**
OR ANY SUCCESSOR AGREEMENT THERETO,	**)**	
AND REGARDING THE FUTURE OPERATION AND	**)**	
CONTROL OF ITS TRANSMISSION ASSETS	**)**	

SURREBUTTAL TESTIMONY

OF

CARL A. MONROE
EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER
SOUTHWEST POWER POOL, INC.

ON BEHALF OF SOUTHWEST POWER POOL, INC.

AUGUST 18, 2011

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Carl A. Monroe. My business address is 415 N. McKinley, Suite 140, Little Rock, AR 72205.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by Southwest Power Pool, Inc. ("SPP") as Executive Vice President and Chief Operating Officer.

Q. MR. MONROE, HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes, I filed Direct Testimony in this docket on February 11, 2011, Supplemental Direct Testimony on March 18, 2011, and Supplemental Initial Testimony on July 12, 2011.

Q. WHAT IS THE PURPOSE OF YOUR ADDITIONAL TESTIMONY?

A. The purpose of my testimony is to again emphasize SPP is the best Regional Transmission Organization ("RTO") option for Entergy Arkansas, Inc. ("EAI"), as well as all of the Entergy Operating Companies ("Entergy"), and that there is certainty and significant benefits in EAI joining SPP. Accordingly, my testimony will specifically address issues from EAI's August 4, 2011 Testimony, EAI's Response to Order No. 37 and the Commission's Order No. 49, as well as some issues raised by EAI in the depositions of myself and Craig Roach. I believe there are more certainties in SPP Membership than Entergy asserts, and that there are greater uncertainties in joining the

Midwest Independent Transmission System Operator, Inc. ("MISO") than Entergy acknowledges.

First and foremost, my testimony will explain that EAI joining SPP is in the public interest. Next, I will respond to EAI's mischaracterization of cost allocation issues and unreasonable adjustment of the SPP Administrative Fee. My testimony will then explain that the SPP Market is on track to be implemented on time and in budget. I will also testify that Entergy's Total Transfer Capability analysis is misplaced and of little value. In addition, I will explain the unmitigated impacts EAI joining MISO will have on the SPP System, including an explanation of the loop flow concerns, compensation, and the applicability of FERC Order No. 1000.[1] Finally, I will address the current dispute between SPP and MISO related to existing flowgates on the SPP System, as well as Entergy's mischaracterization of the Charles River Associates ("CRA") studies. All of these reasons, and the reasons I've stated in my prior testimony, allow me to conclude that SPP is the best RTO option for EAI and/or Entergy.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is divided into nine Sections which are listed below:

Section I. SPP Membership is in the Public Interest.

Section II. Entergy's Comparison of Cost Allocation in SPP and MISO is Inaccurate.

[1] *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, 76 Fed. Reg. 49,842 (August 11, 2011).

Section III. Entergy's Adjustment of the SPP Administrative Fee was Neither Accurate nor Reasonable.

Section IV. SPP's Integrated Marketplace is on Track to be Implemented on Time and On Budget.

Section V. Entergy's Reliance on the TTC Analysis is Misplaced.

Section VI. Entergy's Membership in MISO will result in Unmitigated Impacts on SPP and Third Parties.

Section VII. Dispute Related to Existing MISO Market Flows on the SPP System.

Section VIII. Entergy Mischaracterized the Assumptions and Results of the CRA Studies.

Section IX. Conclusion.

I. SPP MEMBERSHIP IS IN THE PUBLIC INTEREST.

Q. WHY DO YOU BELIEVE THAT MEMBERSHIP IN SPP, AS OPPOSED TO MISO, IS IN THE PUBLIC INTEREST?

A. For all of the reasons which I have previously testified and for all of the reasons I will set forth in this testimony, I believe that EAI's membership in SPP would best serve the public interest. This Commission has recognized in its Order No. 1, in this docket, that its "statutory mandates require action to ensure the public interest is being served." Public interest is a more comprehensive inquiry than a mere consideration of the interests of EAI and the EAI ratepayers. A determination of what will best serve the public interest should include the public interests of all Arkansas ratepayers.

SPP continues to believe that SPP membership is the most beneficial for EAI; however, even if that point is disputed, SPP clearly provides the most benefit to the State of Arkansas. CRA found that SPP membership provided the most benefit, and, although SPP disputes and discredits Entergy's May 12, 2011 Evaluation Report findings in favor of MISO, at a minimum, Entergy still established there is a great value in SPP membership. There are approximately 674,000 non-EAI customers in Arkansas served by Arkansas Electric Cooperative Corporation ("AECC"), Southwestern Electric Power Company ("SWEPCO"), Oklahoma Gas and Electric Company ("OG&E"), and The Empire District Electric Company ("Empire"), all of which have raised the issue that there will be adverse impacts on their systems if EAI joins MISO that are important for this Commission to consider. These issues include, but are not limited to: increased congestion, reduced congestion hedges, operating in two markets, increased administrative fee, increased reserve sharing costs, pancaked transmission rates, increased complexity for their own operation, no certainty of any near-term change regarding additional transmission investment as the result of the participation in a robust RTO wide planning process, increased difficulty in expanding the transmission system near the seam. With respect to the SPP Administrative Fee, SPP has estimated if Entergy were to join SPP that the Administrative Fees paid by the SPP members operating in Arkansas would decrease by approximately $159,000,000, of which an estimated $34,000,000 would be saved by the Arkansas ratepayers.[2]

In addition, the Commission should consider how the public interest is best served through SPP's open and transparent, stakeholder driven process. Arkansas regulators,

[2] See Attachment 1

through the SPP Regional State Committee ("RSC") have a greater role in the SPP process and have more opportunities to make recommendations to and decisions for the SPP RTO that will impact Arkansas ratepayers. When the public interest is truly considered, membership in SPP is the best option.

II. ENTERGY'S COMPARISON OF COST ALLOCATION IN SPP AND MISO IS INACCURATE.

Q. MR. MONROE, YOU'VE PREVIOUSLY PROVIDED TESTIMONY EXPLAINING YOUR CONCERNS RELATED TO MISO'S TARIFF WAIVER FILING WITH THE FEDERAL ENERGY REGULATORY COMMISSION ("FERC") IN DOCKET NO. ER11-3728-000 ("WAIVER REQUEST") AND THE COMPARABILITY STANDARD THAT WILL BE APPLIED TO DETERMINE WHEN THE COST OF TRANSMISSION UPGRADES WILL BE ALLOCATED BETWEEN MISO NORTH AND MISO SOUTH. DO YOU STILL HAVE CONCERNS ABOUT THIS?

A. Yes, I continue to believe that the comparability standard and the Waiver Request are unclear at best. Obtaining comparability is what will trigger the allocation of costs between MISO North and MISO South for transmission upgrades.

Q. WHY DO YOU BELIEVE THEY ARE UNCLEAR?

A. MISO and Entergy have not determined what comparability actually means, how it will be measured, and how they will know when it has been reached. In fact, they do not know how they will achieve it and have stated that no transmission will be built to achieve comparability, which leads me to question the basis for a filing for a tariff waiver.

Likewise, the MISO Transmission Owners have raised this issue in their Motion for Leave to Answer and Answer of the MISO Transmission Owners. Specifically, the MISO Transmission Owners stated that "MISO does not, however, adequately address the substantive issues raised by the MISO Transmission Owners and other parties with regard to the unacceptable vagueness of the proposed comparability analysis and the patent unreasonableness of a waiver ten years in duration."[3] I agree with the MISO Transmission Owners characterization of the statement that MISO will use its current transmission planning processes and planning criteria "is not adequate, since none of those processes define or utilize the concept of comparability which will apparently be the standard employed in the context of the waiver."[4]

One other important point from the MISO Transmission Owners' filing is that a waiver of significant parts of the MISO Tariff "should be permitted only upon a finding that doing so will not jeopardize interested parties' rights to fair and non-preferential access to the transmission grid at rates that are just and reasonable." They conclude that "[n]o such finding can be made for the Tariff deviations that MISO proposes in this proceeding, and thus MISO's application remains inadequate."[5]

[3] See Motion for Leave to Answer and Answer of the MISO Transmission Owners, Docket No. ER11-3728-000, at P. 4 (August 9, 2011) ("MISO Transmission Owners' Answer").

[4] See MISO Transmission Owners' Answer at P. 5.

[5] See MISO Transmission Owners' Answer at P. 5.

Also, the resistance to either define or to commit to transmission to reach a level of comparability, questions if the intent of the waiver is to resist needed transmission to facilitate economics and markets and that would reduce congestion or maintain reliable service. Regardless, the very nature of needing a tariff waiver calls into question whether the inclusion of EAI and/or Entergy in MISO is really a natural fit.

Q. IF FERC DOES NOT GRANT MISO'S WAIVER REQUEST, WHAT IS THE SIGNIFICANCE?

A. By Entergy's own calculation, if FERC does not grant MISO's Waiver Request, the Entergy Operating Companies could be allocated up to $631 million in legacy Multi Value Project ("MVP") costs.[6] I would also assume that if FERC adopts the MISO Transmission Owners' request to shorten the waiver period, if granted, that Entergy and EAI would pay a portion of these costs.

Q. IN YOUR OPINION, IS THERE ADDITIONAL SIGNIFICANCE THAT BY MISO AND EAI/ENTERGY'S OWN ESTIMATE, IT COULD TAKE UP TO TEN YEARS TO ACHIEVE COMPARABILITY?

A. Yes. Entergy has acknowledged that it will likely benefit from the approved SPP transmission upgrades. On the other hand, it will take up to ten years, if not longer before it would see benefits from MISO transmission upgrades. Entergy's argument for FERC to grant the MISO Waiver Request is because Entergy should not be made "to pay for facilities from which its members derive no benefits, or benefits that are trivial in relation

[6] See Limited Supplemental Comments of Entergy Services, P. 4, Inc., Docket No. ER11-3728-000, at P. 4 (July 11, 2011) ("Entergy Supplemental Comments")..

to the costs sought to be shifted to its members."[7] If Entergy's connection to MISO is so tenuous that it does not see any benefits from MISO's transmission upgrades, it leaves one to question the rationale for joining MISO. Although Entergy says their decision was largely predicated on MISO's Day 2 Market, transmission capacity is what defines and enables markets. Transmission planning and cost allocation are key functions of an RTO. Although Entergy may not recognize comparability as an uncertainty and fully appreciate its impact, I believe that the Commission cannot ignore the level of vagueness and the lack of clarity related to comparability, a standard which MISO believes is important enough to require a waiver to its tariff. There would be no tariff waiver and no five to ten-year waiting period needed to integrate EAI and/or Entergy into SPP.

Q. ENTERGY SUGGESTS THAT COST ALLOCATION IN SPP IS LESS CERTAIN THAN MISO. DO YOU AGREE WITH THAT SUGGESTION?

A. No, I do not.

Q. WILL YOU DESCRIBE THE REVIEW PROCESS FOR THE REGIONAL AND ZONAL ALLOCATION METHODOLOGY PROVISION OF THE SPP TARIFF?

A. The regional and zonal cost allocation methodology (which is often referred to as the "Highway/Byway" methodology) is described in Attachment J, Section III.D of SPP's Open Access Transmission Tariff ("OATT" or "Tariff"). The review process is often referred to as the "Unintended Consequences Review" or the "Reasonableness Review." The SPP Tariff requires a Reasonableness Review be undertaken "at least once every three years." However, SPP and/or the RSC may initiate a review "at any time." The

[7] See Entergy Supplemental Comments at P. 4.

review will determine the cost allocation impacts for Base Plan Upgrades with Notifications to Construct that were issued on or after June 19, 2010 (the effective date of the FERC-approved Highway/Byway methodology). The Transmission Provider, in collaboration with the RSC, shall determine the cost allocation impacts of the upgrades being considered as a part of a specific review. At the conclusion of the analysis, the results of the review will be shared with the Regional Tariff Working Group ("RTWG"), the Markets and Operations Policy Committee ("MOPC") and the RSC. The results and any corresponding presentations will also be posted on the SPP website. The RSC will provide its recommendations, if any, to adjust previously approved cost allocation to the SPP and SPP will initiate necessary actions consistent with the recommendations of the RSC.

The Reasonableness Review will be conducted prior to each three-year planning cycle,[8] with the first review to be conducted in 2013. The analytical methods to be used in the review of the cost allocation methodology are currently under development by the Regional Allocation Review Task Force ("RARTF") with recommendations expected to be finalized by the end of 2011. The RSC will be given the opportunity to review and approve those recommendations in early 2012. Beginning in 2015, any member company that believes that it has experienced an imbalanced cost allocation may request relief through the MOPC. Following its consideration of such a request for relief, the MOPC will forward both the members request for relief and its recommendation to the RSC and the SPP Board of Directors ("SPP Board") for review.

[8] SPP's Integrated Transmission Plan ("ITP"), which evaluates transmission plans for the upcoming twenty-year period, is performed on a three-year cycle.

Q. CAN YOU ELABORATE ON THE RARTF AND ITS STATUS?

A. Yes. As part of the open and transparent SPP stakeholder process the RSC and MOPC formed the RARTF. The task force members have been selected and have met. A draft whitepaper and other materials are available on the SPP website at: http://www.spp.org/committee_detail.asp?commID=109. The RARTF is responsible for determining the framework for the Unintended Consequences Review, which it has renamed the Reasonableness Review by the RARTF.

Q. WILL THE RSC CONTINUE TO ADDRESS MATTERS OF COST ALLOCATION?

A. Yes, authority over cost allocation will continue to vested in the RSC.

Q. DO YOU BELIEVE THAT IF ENTERGY JOINS SPP, ITS INTERESTS WILL BE ADEQUATELY REPRESENTED BY THE RSC?

A. Absolutely. Because the RSC is comprised of regulators in each jurisdiction in which SPP members are regulated, Entergy would be adequately represented. Currently the RSC has seven members representing Arkansas, Kansas, Missouri, Nebraska, Oklahoma, New Mexico, and Texas. Should Entergy join SPP and the Louisiana Publice Service Commission ("LPSC"), the Mississippi Public Service Commission, and the City of New Orleans join the RSC, Entergy's retail regulators would constitute five of the ten RSC representatives. That equates to one half of the RSC vote. Under those circumstances, I believe that any suggestion that Entergy's interests, and the interests of its ratepayers, will not be adequately represented on the RSC is not reasonable.

Q. DO YOU HAVE ANY CONCERN ABOUT THE COMPLEXITY OF THE COST ALLOCATION REVIEW?

A. No. While I readily agree that the reviews may be complex because of the nature of the required analysis; I do not believe they will be unmanageable. SPP has conducted and continues to update an ongoing analysis of the effects of its cost allocation on its members. I believe that the Reasonableness Review will be successful in providing the computational framework for use in the analysis phase of the review. Based on past experiences I believe the stakeholder and RSC processes are capable of reaching an appropriate conclusion.

Q. MR. RICHARD C. RILEY TESTIFIED THAT SOME OF SPP'S MEMBERS WERE NOT IN FAVOR OF THE HIGHWAY/BYWAY COST ALLOCATION METHODOLOGY, AND IN PARTICULAR MENTIONED THE OMAHA PUBLIC POWER DISTRICT ("OPPD"). CAN YOU PLEASE DISCUSS RECENT DEVELOPMENTS RELATED TO OPPD?

A. I would be happy to. On August 10, 2011, OPPD and SPP jointly announced that OPPD reaffirmed its membership status as a transmission owning Member within SPP, and will remain a transmission owning member. SPP and OPPD have worked together to consider upcoming transmission projects in SPP's transmission expansion plans, SPP's three-year review of its Highway/Byway cost allocation methodology, and SPP's Integrated Marketplace program. OPPD ultimately determined that remaining a transmission owning member in SPP will provide customers with many benefits, including increased reliability and broader access to energy markets.

Q. HAS SPP DEMONSTRATED ITS ABILITY TO RESOLVE JOINT INTER-REGIONAL PLANNING ISSUES BETWEEN ENTERGY, NEIGHBORING SYSTEMS AND CAPTIVE CUSTOMERS?

A. Yes. Entergy and SPP have a long history of joint operations and planning, and have demonstrated the ability to solve joint planning problems. A recent example is the resolution of transmission issues in the Acadiana Load Pocket ("ALP") achieved through a coordinated effort between SPP, the LPSC, and the transmission owners in the area. Rather than complicating the seams between SPP and Entergy, it would be best to internalize the seam in a process and organization that can promote transmission for needed solutions and operate in an effective and efficient manner.

The lack of a seams agreement and an appropriate inter-regional cost allocation methodology has been a major concern to SPP members and the RSC as noted by the RSC's retention of The Brattle Group to begin addressing these issues as I described in earlier testimony. Entergy joining SPP would internalize and allow what I believe to be a speedy resolution to the seams issue, which is clearly not the case if Entergy were to join MISO. While Mr. Riley took issue with AECC Witness Mr. Laurence Kirsch's use of a map in his testimony, it is true that a picture is often worth a thousand words. Entergy joining MISO without any major Extra High Voltage ("EHV") transmission projects to effectively integrate the markets of both is not the best approach to bulk power planning and operations. Entergy's proposal would simply extend Entergy's grid problems for an unknown period into the future, particularly in light of FERC Order No. 1000.

Q. IN YOUR DEPOSITION,[9] EAI ASKED ABOUT HOW SPP HAS DEALT WITH, AND HOW IT WILL DEAL WITH CONFLICTING POSITIONS IN COST ALLOCATION TAKEN BY REGULATORS FROM DIFFERENT STATES. PLEASE EXPLAIN.

A. As I stated in the deposition, we have faced situations where members of the RSC had widely varying views on the critical nature and aspects of cost allocation for transmission expansion. Through their diligent work, the members of the RSC developed the current cost allocation methods in SPP by consensus. As I said in the deposition, we have not had longstanding disagreements over something as litigious as the Entergy System Agreement to deal with in SPP; however, I have seen no evidence of any differences between the Arkansas and Louisiana Commissions over the Entergy System Agreement interfering in any way with the functioning of the E-RSC.

Furthermore, I believe that a state commission would welcome the Reasonability Review provision of the SPP Tariff as it provides a forum not available in other RTOs and Independent System Operators ("ISOs"), including MISO, for the discussion of cost allocation issues which at best, could gain additional support or the total support of the RSC of a position, and at worst, an individual state would be no worse off in their ability to pursue their point of view at FERC.

Moreover, as stated above five of the ten RSC representatives could be from regulatory authorities under which Entergy operates. Again, to suggest that Entergy's interests and

[9] See Deposition of Carl Monroe, Volume I, pages 116-118, attached hereto as Attachment 2.

the interests of its ratepayers will not be adequately represented on the RSC is unreasonable.

Q. ARE THERE SIMILARITIES BETWEEN THE E-RSC AND THE SPP RSC IN TERMS OF THEIR COOPERATION ON SIGNIFICANT ISSUES?

A. The idea of the E-RSC was born when representatives of this Commission and the LPSC met and decided that even though there were significant issues and disagreements on Entergy's planning and operations that they believed that they could work together to solve a number of those issues regarding the Entergy system whose resolution would benefit ratepayers. The June 2009 Charleston meeting among state and federal regulators heightened the interest and cooperation that carried into the first E-RSC meeting in July 2009. The E-RSC's initial steps were formative, but they immediately began to carry out their oversight of the CRA cost/benefit study to consider Entergy's membership in SPP. The E-RSC successfully negotiated a Memorandum of Understanding and a subsequent Attachment to the Entergy OATT that granted the E-RSC authority over transmission cost allocation and the ability to add projects to the Entergy Construction Plan. The E-RSC put into place the decisional authority to direct Entergy to make section 205 filings for specific purpose on the E-RSC's behalf. In addition, the E-RSC has initiated several enhancements to the current Independent Coordinator of Transmission ("ICT") arrangement, particularly regarding the transparency of the Weekly Procurement Process ("WPP") and an extension of the Entergy Planning Horizon from three to five years.

Perhaps most importantly, the E-RSC has created a platform where all of the Entergy retail regulators meet and discuss issues with the input of the Entergy stakeholders in an open and transparent arena. The structure of both the E-RSC and the SPP RSC provides a forum that promotes multi-jurisdictional cooperation and efficiencies rather than differences.

Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO ADD REGARDING ENTERGY'S CRITIQUE OF SPP'S HIGHWAY/BYWAY METHODOLOGY?

A. Yes. It appears that criticism of the RSC's Highway/Byway is inconsistent with the views of the FERC.

Q. PLEASE EXPLAIN.

A. SPP's Highway/Byway cost allocation method has been positively recognized by a FERC Commissioner. As the keynote speaker at a recent clean energy forum in Hutchinson, Kansas, Commissioner Mark Spitzer called SPP the "poster child" when discussing consensus, cost allocation and transmission planning. This endorsement of SPP's efforts and policies comes just weeks after FERC rejected participant funding methodology in FERC Order 1000 as a cost allocation method that regions could rely on in complying with FERC Order 1000.

III.. ENTERGY'S ADJUSTMENT OF THE SPP ADMINISTRATIVE FEE WAS NEITHER ACCURATE NOR REASONABLE.

Q. DO YOU BELIEVE THE ADJUSTMENT TO FORECASTED ADMINISTRATIVE FEES PREPARED BY EAI IN ITS TESTIMONY ACCURATELY REFLECTS THE COSTS EAI COULD EXPECT WERE IT TO JOIN SPP AND PARTICIPATE IN SPP'S INTEGRATED MARKETPLACE?

A. No.

Q. CAN YOU EXPLAIN YOUR THOUGHTS ON SPP AND ITS EXPECTED ADMINISTRATIVE FEES?

A. First, Entergy's analysis ignores the fact that SPP has been operating as an organization since 1941 and has already dealt with the significa**<u>nt start-up expenditures experienced by other ISOs/RT</u>**Os. Over time, SPP has evolved by adding services incrementally as opposed to adding all services over a very short period of time. The list of functions in which SPP has addressed start-up costs includes the costs associated with starting up its Reliability Coordination function in the mid 1990's, the costs associated with administration of its regional OATT in the late 1990's, the costs associated with transmission scheduling services in early 2000's, and the costs associated with operation of its Energy Imbalance Services ("EIS") market in the mid-2000's. While other entities starting up or quickly implementing FERC Order No. 888 and FERC Order No. 2000 have recognized all those start-up costs in a more concentrated timeframe, some may even still be recognizing those costs.

Second, Entergy's analysis ignores the fact that SPP has been able to implement its services at a cost well below the cost incurred by other regional organizations. While speculation over why other organizations have implemented at higher cost is not within the scope of this testimony, I can emphasize the factors resulting in SPP implementing at lower costs:

a. SPP's strong stakeholder process requires the stakeholders who will ultimately utilize and pay for the services implemented to drive for a tight scope and to place significant focus on cost. This stakeholder driven collaboration results in services scoped to satisfy the needs of the stakeholders and are not scoped to provide services or functions that only meet a specific stakeholder's needs.

b. SPP has generally developed and implemented these functions after other regional entities have implemented theirs and can take their experiences and knowledge into account. This results in SPP benefitting by following a path blazed by other regional organizations and not having to expend resources to following paths that did not efficiently lead to the desired outcome or develop the new services. Additionally, the third party developers of SPP's specialized services were able to develop their expertise working with the other regional organizations and are better able to develop and implement SPP's software solutions more effectively and efficiently.

Third, SPP has not been subject to an accelerated timeline to implement its services. History has proven if something complex and unfamiliar needs to be completed quickly, one can expect the costs to increase dramatically. SPP's evolutionary approach benefits its stakeholders by not rushing into additional services and instead, taking time to fully develop the service scope and work plan. With regard to SPP's Integrated Marketplace, SPP's stakeholder working groups have been planning since 2007 and scoping the requirements and development of these markets since 2009.

Q. WHAT ARE YOUR THOUGHTS ON MR. JOHN P. HURSTELL'S ASSUMPTIONS REGARDING BENCHMARKING ADMINISTRATIVE FEES BASED SOLELY ON SIZE?

A. Mr. Hurstell assumes that size of the RTO is the only factor that would account for the administration fees for each RTO. First, the services provided and the costs incurred in providing those services would need to be examined to ensure that each RTO is on the same basis. Second, each RTO has different requirements for similar services. Third, as

SPP evolves by adding additional functionality, SPP is able to take advantage of the time and resources expended by others before it and leverage those efforts to reduce its implementation costs. I agree with the premise that spreading the same costs over more load results in a lower rate. There are numerous other industry examples of organizations that were successful and profitable because their operations were more efficient and effective than others that provided the same services. I disagree with the premise that because other entities have a cost/load ratio of X then SPP should have a linear relationship to that same cost/load.

IV. SPP'S INTEGRATED MARKETPLACE IS ON TRACK TO BE IMPLEMENTED ON TIME AND IN BUDGET.

Q. YOU HAVE PREVIOUSLY TESTIFIED THAT YOU DO NOT AGREE WITH ENTERGY'S ASSUMPTION THAT IT DOES NOT BELIEVE SPP CAN IMPLEMENT ITS INTEGRATED MARKETPLACE ON TIME OR IN BUDGET. IS THAT STILL YOUR TESTIMONY?

A. Yes. I continue to disagree with Entergy and am confident that SPP will implement the Integrated Marketplace on time and within budget.

Q. PLEASE SUMMARIZE WHY YOU EXPECT SPP TO IMPLEMENT ITS INTEGRATED MARKETPLACE ON TIME?

A. As I have previously testified, SPP has the benefit of knowledge and lessons learned related to other market implementations efforts to help provide it a solid implementation plan. In the first place, SPP has already approved its market protocols, which were largely based on the success of other markets. Second, SPP has executed contracts with experienced vendors that provided systems within those successful markets. Third, SPP has already contracted with a successful program manager vendor and that has responsibility for the integration of vendor systems with each other and with SPP legacy systems. Fourth, SPP's has a working arrangement with the Electric Reliability Council of Texas ("ERCOT") and PJM Interconnection, LLC ("PJM"), which has provided value in validating, and in some cases changing, SPP's approach based on their experience. By leveraging others' experience and that which was gained through SPP's own EIS market implementation SPP fully expects to implement the Integrated Marketplace on time and within budget.

Q. WHAT IS THE STATUS OF SPP'S INTEGRATED MARKETPLACE DESIGN AND DEPLOYMENT AND HOW IS IT PROCEEDING?

A. SPP is on schedule with the implementation of the Integrated Marketplace. In developing the Integrated Marketplace, SPP has paid particular attention to and learned from issues with market designs in other markets. This reflects part of SPP's value proposition to be "Evolutionary vs. Revolutionary."

Q. IT APPEARS THAT A PRIMARY REASON ENTERGY CHOSE MISO WAS THAT MISO HAS "A PROPERLY FUNCTIONING DAY 2 MARKET." ENTERGY PROPOSES TO JOIN MISO'S DAY 2 MARKET IN DECEMBER 2013 AND SPP'S DAY 2 MARKET IS SCHEDULED TO LAUNCH ON MARCH 1, 2014. DO YOU THINK IT IS APPROPRIATE TO ELIMINATE SPP BECAUSE ITS INTEGRATED MARKETPLACE IS NOT IN OPERATION CURRENTLY?

A. No. When you consider that joining an RTO as a Transmission Owning member is a long-term decision that will likely last years if not decades, a ninety-day difference between the date Entergy proposes to join MISO (December 1, 2013) and the date SPP is scheduled to launch the Integrated Marketplace (March 1, 2014), is short-sighted reason to not join SPP.

Q. IN ANALYZING THE JOIN SPP OPTION, EAI IDENTIFIED A NEED TO HAVE A BALANCING AUTHORITY ("BA") PRIOR TO SPP'S IMPLEMENTATION OF THE INTEGRATED MARKETPLACE ON MARCH 1, 2014. EAI TESTIMONY FROM MR. KURT CASTLEBERRY HAS STATED THAT THE IMPLEMENTATION COSTS FOR AN EAI BALANCING AUTHORITY ARRANGEMENT WOULD BE AT LEAST $21 MILLION (SUPPLEMENTAL DIRECT TESTIMONY OF MR. CASTLEBERRY, JUNE 22, 2011, PAGE 19). HAS SPP CONSIDERED ANOTHER SOLUTION FOR EAI/ENTERGY'S CONCERN?

A. Should EAI join SPP in December of 2013, SPP systems will be available to provide BA services prior to the implementation of SPP's Integrated Marketplace. SPP would provide the facilities, IT systems, operating procedures and staff during the bridging period until the Integrated Marketplace is implemented on March 1, 2014. This includes the current provision of an Ace Diversity Exchange for its BAs to reduce generation costs of supplying regulation and energy for real-time demand in the participating BA's. In addition, the EAI BA would be able to continue participating in SPP's Reserve Sharing Group. Establishing the EAI BA under this approach will prepare EAI for participation in the Integrated Marketplace and EAI's costs should be minimal and thus a large portion of the $21 million would be avoided. With the implementation of the Integrated Marketplace, EAI would then participate in the SPP Consolidated Balancing Authority.

Q. DOES THE INTEGRATED MARKETPLACE ABROGATE GRANDFATHERED AGREEMENTS?

No. The Integrated Marketplace preserves the grandfathered agreements. Note that the two major impacts on SPP operations of grandfathered agreements are their use of the SPP transmission facilities and the impact on energy settlement in the SPP markets. The SPP Integrated Marketplace is designed to use parties firm transmission reservations for the allocation of Transmission Congestion Rights. These firm transmission reservations include existing grandfathered agreements. Therefore, the physical use of the SPP transmission facilities is recognized and any economic impact is recognized in a two settlement market (Day-ahead and Real-time). Any congestion charges for these agreements are mitigated through the award of Transmission Congestion Rights consistent with the grandfather agreements. If any shift of risk or energy settlement is needed SPP provides the capability for market participants to submit bilateral schedules to accomplish the shift.

V. ENTERGY'S RELIANCE ON THE TTC ANALYSIS IS MISPLACED.

Q. WHAT IS THE SIGNIFICANCE OF THE TOTAL TRANSFER CAPABILITY ("TTC") ANALYSES PERFORMED BY MISO AND ENTERGY?

A. Entergy has countered arguments that the interconnection between MISO and Entergy is relatively weak with their own TTC analyses that indicate large amounts of transfer capability between the two entities. They further argue that these analyses indicate that sufficient transfer capability exists to support the integration of EAI and the other Entergy Operating Companies into the MISO system and point to others' concurrence with their position, i.e., Staff witness Peaco and Attorney General witness Woodruff. MISO has similarly stated large amounts of TTC from their own analysis.

First, Entergy's witnesses miss the point. The term interconnection has been used in the context of a physical connection between two entities, in this case MISO and Entergy. In that context, there is only one facility that comprises the interconnection and it is rated at 1,000 MW for purposes of facilitating interchange between MISO and Entergy. From the perspective of its contractual capability to facilitate interchange between the MISO system containing approximately 135,000 MW of generating capacity and the Entergy system containing approximately 30,000 MW of generating capacity, it is a weak interconnection. It is also weak from the perspective that relatively small amounts of energy will actually flow across that interconnection when MISO and Entergy are transacting with each other. The majority of the flow will, in fact, be across other parties' facilities, some of which are not in an organized market and have limited flexibility to allow this practice (*e.g.* Associated Electric Cooperative Inc. ("AECI"), Southwestern Power Administration ("SPA") and Tennessee Valley Authority ("TVA")). MISO's and Entergy's reliance upon their TTC calculations as meaningful evidence that the system can support their integration indicates that they fully expect to facilitate energy exchange between themselves by burdening the strong interconnections that others have with Entergy without any consideration for the use of the interconnections to serve the native load of those with explicit claims. By virtue of MISO's expressed intent of creating separate planning zones, MISO apparently also has no interest in constructing their own interconnections with Entergy but rather expects to lean upon other parties to plan and construct strong interconnections with Entergy. These are the merits of the arguments that MISO and Entergy are weakly interconnected and upon which SPP will insist that the Joint Operating Agreement ("JOA") with MISO must be renegotiated to provide just and reasonable compensation for such heavy reliance upon SPP's interconnections with Entergy.

Second, SPP wants to be sure that the Commission understands the shortcomings of relying on the TTC calculations upon which to draw any conclusions about the capability of the system to integrate MISO and Entergy's operations. These TTC analyses were performed using a peak hour simulation with all lines and generators in service in the base case. Real-time operations almost never have all lines or generating facilities in service. These studies are also done with certain assumptions about generation dispatch that seldom closely matches reality. As I have previously testified, SPP has experienced significant congestion on constrained facilities that will only get worse were there to be an integration of MISO and Entergy and be even more limiting to transfers between the two entities than what has been suggested by the reported TTC analyses.

Third, if any conclusions should be drawn, they should be drawn by looking at TTC results for a later year as opposed to those for 2013 which Entergy and MISO have focused on. SPP performed its own TTC analyses, not because they are needed for determining interconnection "strength" or true transfer capability, but simply to verify Entergy's and MISO's results. In addition to an analysis of 2013, SPP also evaluated

TTC in 2020. In SPP's analyses, all known commitments for transmission upgrades in SPP, MISO, and Entergy were included. Although SPP's TTC results for 2013 are similar to Entergy's, it is worth noting that SPP's 2020 results begin to tell a different story. In 2020, the TTC for the SPP to Entergy path more than triples due to upgrades currently planned near the Entergy/SPP border. Another interesting result to note is that the Entergy to MISO path reduces from approximately 3,400 MW to 650 MW by 2020. This is due to a constraint caused on a neighboring system for which MISO has stated they have no responsibility to address.

Table 1 - 5% TDF Total Transfer Capability (TTC) Results

From	To	2013 Summer (MW)	2020 Summer (MW)
Entergy	MISO Market	3417	651
Entergy	SPP Market	1611	1540
MISO Market	Entergy	4783	5195
SPP Market	Entergy	1160	3720

In summary, the TTC analyses reported by Entergy and MISO in their witnesses' testimonies as well as the ones performed by SPP in response to a data request of the Attorney General are of little use in the evaluation of the system's capability to facilitate MISO's desired integration of Entergy.

VI. <u>ENTERGY'S MEMBERSHIP IN MISO WILL RESULT IN UNMITIGATED IMPACTS ON SPP AND THIRD PARTIES</u>

Q. AMONG THE MOST CONTENTIOUS ISSUES ADDRESSED BY THE VARIOUS WITNESSES IN THIS PROCEEDING CONCERN THE COLLATERAL IMPACTS OF THE ENTERGY/MISO PROPOSAL ON THIRD PARTIES. CAN YOU SUMMARIZE THESE ISSUES AS THEY RELATE TO THE REBUTTAL TESTIMONY OF ENTERGY'S WITNESSES?

A. Yes. The Entergy/MISO proposal raises two fundamental questions regarding potential collateral impacts on third parties. The first question is whether Entergy's proposal to join MISO will result in power flows changes on adjacent systems that adversely impact these systems' operations and/or make substantial, non-reciprocal use of third-party facilities. The second, related question is whether any such impacts and uses should be compensable. Obviously, the consideration of these two issues – addressed at some length in the rebuttal testimony of Mr. Hugh McDonald and Mr. Michael Schnitzer – are critical to the Commission's ability to reach an informed decision on the net costs and benefits of the Entergy/MISO proposal.

Q. DO ENTERGY'S WITNESSES AGREE THAT COLLATERAL, THIRD-PARTY, IMPACTS ARE RELEVANT TO THE COMMISSION'S DELIBERATIONS IN THIS PROCEEDING?

A. Entergy's position appears to be that such impacts are, at best, marginally relevant to the merits of the Entergy/MISO proposal. In his rebuttal testimony, Entergy's witness Mr. McDonald insists that the Commission's "primary focus" should be on the "impacts of EAI's decision on its 698,000 retail customers" and that impacts to other interests/parties "…are a distant third in priority." (McDonald Rebuttal at 8: 5-11). He later testifies that it is not possible for EAI or the Commission to make a decision that offers "net benefits for every party to this proceeding." *Id.* at 11: 3-6.

Similarly, Mr. Schnitzer testifies that it is neither necessary nor appropriate for the Commission to adopt a "hold harmless" standard, arguing that such as standard would be "impossible [] to satisfy." Schnitzer Rebuttal at 7: 9-15. Mr. Schnitzer further observes that whatever compensation issues arguably arise by virtue of the Entergy/MISO proposal, such issues are within FERC's jurisdiction and properly addressed, if at all, in the context of renegotiations of the JOA. *Id.* at 7: 20-23.

Q. DO YOU AGREE WITH THESE WITNESSES' POSITIONS?

A. I do not agree that consideration of third-party impacts, and how such impacts should be compensated, can be separated from the issue of whether the Entergy/MISO proposal benefits EAI's retail customers. Mr. McDonald suggests that the beneficial impacts to EAI's retail customers need not be netted against the costs to third parties. I disagree. Assuming, as SPP believes will be the outcome, that Entergy will ultimately be held accountable for such costs, then the net impact of the Entergy/MISO proposal – i.e., cost vs. benefit – must take these costs into consideration. I believe that this Commission should be concerned about what costs will ultimately be absorbed by EAI's ratepayers.

I also take issue with Mr. McDonald's characterization of SPP's position regarding the need for "hold harmless" protection. Mr. McDonald suggests that parties urging such protection are attempting to gain a "net benefit" for themselves. (McDonald Rebuttal at 11: 3-6). That is simply not the case. Indeed, the essential purpose of "hold harmless" protection, as the name suggests, is to ensure that impacted parties are no better, or worse, off as a result of the Entergy/MISO proposal.

I agree with Mr. Schnitzer that compensation issues relating to the impacts of the Entergy/MISO proposal on SPP can be addressed in the context of renegotiating of the JOA. I reiterate, however, that this Commission cannot fully assess the costs and benefits of the Entergy/MISO proposal without accounting for the resolution of this issue.

If Entergy were to join SPP, SPP would work to resolve any third party impacts and potential "hold harmless" claims.

1. <u>ADVERSE IMPACTS ON SPP SYSTEM WILL OCCUR</u>

Q. TURNING TO THE FIRST ISSUE YOU IDENTIFIED AND THE LIKELIHOOD THAT THE ENTERGY/MISO PROPOSAL WILL ADVERSELY IMPACT AND/OR MAKE SUBSTANTIAL, NON-RECIPROCAL USE OF THIRD-PARTY FACILITIES, WHAT IS ENTERGY'S POSITION?

A. Addressing arguments advanced by SPP and others regarding these potential impacts and uses, Mr. Schnitzer focuses first on loop flow impacts likely to result from the Entergy/MISO proposal. He testifies that loop flows are a normal part of grid operations and generally not compensable. He goes on to state that the CRA modeling of the Join-MISO case limited free transfers between the Entergy region and MISO to the level accommodated by the existing interconnection and concludes that SPP's errs in asserting that CRA failed to include compensation due to SPP for resultant loop flows.

Q. HAS MR. SCHNITZER PRESENTED A COMPLETE AND ACCURATE SUMMARY OF LIKELY LOOP FLOW IMPACTS ON SPP?

A. He has not. It is true, as Mr. Schnitzer states, incidental loop flows are typical within the Eastern Interconnection and, because they are assumed to impact neighboring utilities in a reciprocal manner, FERC's general policy is to treat such incidental impacts as non-compensable. However, even Mr. Schnitzer concedes (Schnitzer Rebuttal at 4: 1-8), that when impacts to neighboring systems adversely and economically affect operations, i.e., through the creation of congestion or by threatening system reliability, FERC has acknowledged the right of the impacted utility to seek compensation.

In my earlier testimony, I identified the anticipated impacts of the Entergy/MISO proposal on SPP. These impacts are neither mutual nor incidental. To the contrary, the lack of meaningful transmission interconnectivity between MISO and Entergy will necessarily require the imposition of unprecedented power flows on the transmission system of SPP members and adjacent systems like TVA and AECI. As a consequence, SPP members, including the SPP member utilities serving customers in Arkansas, as well as SPA, are both entitled to be equitably compensated and needed for the proper incentives for transmission expansion. Such claims for equitable compensation are not, as Mr. Schnitzer (Schnitzer Rebuttal at 51: 5-18) and Mr. McDonald (McDonald Rebuttal at 11: 3-6) suggest, attempts to leverage a unwarranted "benefit," but rather justifiable demands to be kept whole for the lost value and incremental costs associated with the large volume of unplanned flows that will be imposed on SPP's system. As I previously explained, without fair compensation for usage of SPP's and others' transmission systems, there is no incentive to proactively manage flows on the transmission system or to expand the transmission system in order to reduce operational and cost risks, as well as share benefits.

Q. IN HIS REBUTTAL TESTIMONY (AT 9: 1-5), MR. SCHNITZER ASSERTS THAT YOU FAILED TO SUPPORT YOUR CLAIM THAT EXCESS FLOWS UNDER THE ENTERGY/MISO PROPOSAL WILL HAVE ADVERSE EFFECTS ON THE SPP SYSTEM. IS MR. SCHNITZER CORRECT?

A. No. On pages 31 through 37 of my Supplemental Initial Testimony filed on July 12, 2011, I explained, in great detail, the adverse effects such flows would have on the SPP system. I also explained the hours of congestion on the SPP system that is attributable to current MISO loop flows would double (Monroe Initial Supplemental at 31: 7-16), and that was assuming only 1,000 MW of transfers from MISO to Entergy, not the 4,000 MW that MISO intends. I also explained that projecting loop flows is problematic, because it is difficult to capture the affects of loop flow based on net energy or average flows. (Monroe Initial Supplemental at 36: 7 – 37: 16). Yet, I was able to determine from the CRA study that under the Entergy/MISO proposal Entergy imports will increase from between 246 MW to 270 MW during the 2019[10] seasonal periods based on the CRA models. (Monroe Initial Supplemental at 37: 8-10).

Q. HAVE YOU FURTHER EXAMINED THE 2019 CRA MODELS TO EXTRACT DATA ABOUT LOOP FLOWS?

[10] Supplemental Initial Testimony of Carl A. Monroe, pg. 37, lines 8-10 contained an inadvertent error, in that it referenced 2016 and should have referenced 2019.

A. Yes. While the average increase in Entergy imports in the Join MISO case compared to the status quo base case is 260 MW, the following shows how averages can be misleading. In reviewing the full 8760 hourly data for the base case and the Join MISO case, SPP has determined that the maximum increase in Entergy imports is 2,245 MW in a single hour. The maximum decrease in Entergy imports is -1,370 MW. Entergy flow increases exceeded 1,000 MW in 662 hours based on the changes in these CRA simulations for 2019. While the number of hours where Entergy import increases exceed 2,000 MW is only 10 hours in these simulations, Entergy import increases are projected to exceed 1,500 MW in 114 hours in 2019 based on these CRA simulations. As can be seen from the hourly interface flows extracted from the CRA models to compare Entergy imports for the Join MISO case compared to the base case, one can expect significant levels of transfers to occur above the contract path limit between Entergy and MISO. It's important to note that "Entergy" in these calculations is the Entergy region which represents how the integration of the Entergy transmission system will impact the transmission system, not just a portion of transmission assets that is used to serve EAI's retail customers.

Q. PLEASE RESPOND TO MR. SCHNITZER'S DEFENSE OF THE CRA STUDY AS IT CONCERNS THE MAGNITUDE OF POWER FLOWS LIKELY TO BE IMPOSED ON SPP'S SYSTEM.

A. Mr. Schnitzer disputes SPP's contention that the CRA study understated the flows that will be absorbed by SPP under the Entergy/MISO proposal. First in its Addendum Study of March 10, 2011, CRA modeled the transmission system and generation sources as always available.[11] As we know the transmission system is almost always operating with elements of the system out of service. These are for routine maintenance or unexpected outages. Second, the only representation of limitations to the use of third party systems were to set a wheeling rate "barrier" to the economic choices of the commitment and dispatch. These wheeling rates are not representative of the only contract path Entergy and MISO have to exchange energy, but also were low compared to future wheeling rates. The impacts of the increased energy flows used to determine increased trade benefits used the assumption that, per MISO's declaratory order request, all transmission lines within and through SPP could be used to implement the Entergy/MISO proposal. The important point that Mr. Schnitzer fails to acknowledge is that under the Addendum Study, the incremental flows producing increased trade benefits assumed *no cost* to Entergy and *no compensation* to SPP or its transmission owning members.

2. SPP SHOULD BE COMPENSATED FOR BURDENS IMPOSED ON SPP SYSTEM

Q. TURNING TO THE SECOND ISSUE YOU IDENTIFIED, MR. SCHNITZER ASSERTS THAT THE FERC JOA ORDER[12] CLARIFIES THE CIRCUMSTANCES IN WHICH COMPENSATION WILL BE DUE TO SPP. PLEASE ADDRESS MR. SCHNITZER'S DISCUSSION OF COMPENSATION UNDER THE JOA.

[11] While SPP finds the CRA studies to be the most reliable, the Addendum Study of March 10, 2011 were more conservative for SPP than for MISO. If the assumptions were closer to an "apples to apples" comparison, SPP believes the benefits for SPP would have been even greater. See Pages 3-6 of the Supplemental Direct Testimony of Carl A. Monroe, filed March 18, 2011

[12] *Midwest Independent Transmission System Operator, Inc.*, 136 FERC ¶ 61,010 (2011) ("FERC JOA Order").

A. Mr. Schnitzer claims that there is no current basis for compensating SPP and its members for impacts from flows intentionally placed on SPP's system in excess of the 1000 MW MISO-EAI contract path capacity.[13] (Schnitzer Rebuttal at 19: 11 – 20: 6). Schnitzer's argument that the order on the MISO-SPP JOA did not direct MISO to compensate SPP for loop flows is misleading. Of course it did not direct this. The issue of compensation for loop flows was not considered by FERC in that order. FERC was merely petitioned to interpret the meaning of Section 5.2 of the JOA. That section of the JOA has nothing to do with compensation and FERC made it clear that all other matters, including compensation, were outside the scope of the Petition. What is important to note about the order is that FERC recognized that the JOA can and should be renegotiated in response to revisions SPP or MISO may propose.

Q. MR. SCHNITZER ALSO STATES THAT WHILE FUTURE JOA NEGOTIATIONS WILL ADDRESS THE HANDLING OF MARKET FLOWS AND POSSIBLE COMPENSATION, THERE IS "…NO SITUATION UNDER WHICH THE APPLICATION OF THE JOA COULD REDUCE THE BENEFITS BELOW THE LEVEL THAT WAS MODELED" AND THAT ANY EXPANDED AVAILABILITY OF SHARED PATHS WILL "ONLY INCREASE BENEFITS." DO YOU AGREE?

A. No. As previously explained, Mr. Schnitzer's "increased benefits" scenario assumes that the presumptively higher trade benefits come at no additional incremental cost. SPP,

[13] Mr. Schnitzer, does however, acknowledge that section 6.2 of the JOA provides a mechanism for compensating SPP in the event MISO exceeds its allocated flowgate capacity and that flowgate is congested, resulting in SPP redispatching its system. Schnitzer Rebuttal at 20: 7-19.

joined by other parties to this proceeding, dispute Mr. Schnitzer's assumption and will vigorously defend the right to be compensated for the deliberate imposition of significant new loading across the SPP footprint.

Q. DO LOOP FLOWS ALREADY EXIST AND, IF SO, DOESN'T EVERYBODY ALREADY HAVE TO DEAL WITH LOOP FLOWS?

A. Yes, loop flows exist. EAI witness Mr. Schnitzer asserts that SPP and others ignore the fact that loop flows exist today and attempts to downplay this phenomenon as a routine, trivial matter. First, SPP does not ignore the fact that loop flows already exist. In fact, we have clearly identified that SPP experiences loop flows today. We are also aware that our neighbors occasionally experience loop flows on their systems. As stated above, loops flows that are incidental and mutual were typically considered reasonable. What is unreasonable is the non-incidental or non-mutual amounts of loop flows in significant amounts that are unilaterally imposed. In those situations, compensation is fair and reasonable. Without compensation, certain transmission customers will consistently receive unfair advantages at the expense of others. This undue discrimination does not just occur during congestion. It can also occur in future provision of transmission service, when the transmission service provider assumes loop flows will exist in its transmission service studies and, as a result, either cannot provide transmission service or improperly assigns costs to customers willing to properly obtain the right to use the transmission system, again at the benefit of those who do not properly pay for their usage. Additionally, any future plans for transmission expansion would be complicated or thwarted because of the "free riders". Thus, compensation is also an appropriate consideration for any significant loop flows, not just during times of congestion.

Q. WILL A CHANGE IN LOOP FLOWS HAVE IMPACT ON MARKET PARTICIPANTS IN THE SPP INTEGRATED MARKETPLACE?

A. Yes. As documented by MISO in redlines to a 2010 report at MISO titled *FTR Underfunding Whitepaper*, ignoring loop flows "…will exacerbate the funding problem." The loop flows "...will set up for long Financial Transmission Rights ("FTR") positions, which is the issue at the crux." By deliberately proposing an increase in loop flow, Entergy and MISO are also proposing reducing SPP Market Participants' right to receive congestion hedges (a.k.a. FTRs) to protect native load.

Q. DOES THE JOIN SPP CASE CREATE MORE CONGESTION ON MISO THAN THE JOIN MISO CASE CREATES ON SPP?

A. Absolutely not. The comparison suggested by Entergy's witness Mr. Schnitzer is not even accurate. SPP has submitted to the APSC historical flow information that indicates 2,500 hours of congestion have been experienced on SPP flowgates in Nebraska and Missouri as a result of significant loop flows from MISO. This is factual information that simply cannot be denied or debated. Using transfer distribution factors found in the Interchange Distribution Calculator ("IDC"), a credible source for such data, SPP has determined that this congestion will nearly double at transfers of 1,000 MW between MISO and Entergy. In contrast, SPP has small amounts of loop flow impacts, approximately 10% impacts, on MISO flowgates in Missouri that experienced approximately 67 hours of Transmission Loading Relief ("TLR") over the period between January 2010 and June 2011. Transfers from SPP to Entergy have no higher than a 10% impact on those same flowgates, so no reasonable data exists to demonstrate the join SPP case creates worse congestion on MISO than the join MISO case does on SPP.

Q. DO THE LOOP FLOWS ON SPP'S SYSTEM UNDER THE JOIN MISO CASE RISE TO THE LEVEL THAT WARRANTS COMPENSATION UNDER FERC POLICY?

A. The loop flows expected on SPP's system clearly fall within the FERC policy even Mr. Schnitzer himself has offered for consideration. Without a doubt, this level of loop flows on SPP's system "diminishes [SPP]'s ability to utilize its system in the most economical manner." In that case, FERC policy provided by Mr. Schnitzer indicates that compensation will be required.

Q. DOES A BASIS FOR COMPENSATION FOR LOOP FLOWS EXIST?

A. Contrary to what EAI witness Mr. Schnitzer testifies, there is absolutely a basis for compensation for loop flows associated with transfers between MISO and Entergy. As I've explained, SPP has already experienced significant amounts of congestion as a result of MISO loop flows, which is expected to nearly double at transfer levels of 1,000 MW between MISO and Entergy. If MISO is allowed to use the facilities of SPP members at transfer levels up to 4,400 MW by relying on the prevailing interpretation of Section 5.2 of the JOA, the amount and duration of congestion will become nearly unmanageable. Clearly, even today, SPP's members and customers are being deprived of utilizing the system that they own and the transmission service that they have purchased at the expense of other customers who have not appropriately arranged or compensated for their usage of the system. This inequitable and unjust treatment of SPP's customers will get worse with increased transfers between MISO and Entergy. It will not be difficult to meet even Mr. Schnitzer's version of FERC policy on compensation for loop flows given SPP's actual real world experience with loop flows that have clearly had reliability impacts on the SPP system and diminished SPP's members' ability to utilize their system in the most economical manner.

Mr. Schnitzer further incorrectly argues that the JOA controls the effects of loop flows by allocating firm flow rights across critical flowgates. He goes on to misrepresent that under the JOA, MISO and SPP must provide relief on a congested, allocated flowgate when the RTO's flows exceed its previously established allocations. He fails to accurately explain that the allocation of firm rights merely serves to establish the amount of market flows that can be considered firm; it does not provide any limit on the amount of flows that can be imposed upon the other parties system. The limit on the amount of flows that can be placed on the other party's system occurs only when the constraint is recognized in the offending party's dispatch system. By that point and until such time as the loop flows are reduced to a level that no longer causes congestion, financial harm and reliability risks have been imposed on the party that owns the constrained facilities. Mr. Schnitzer fails to explain how SPP's members and customers, including other Arkansas ratepayers, will be protected from further financial harm and reliability risks when congestion is invoked twice as much as today as a result of transfers between MISO and Entergy and why it is unreasonable to expect compensation.

Q. MR. SCHNITZER ALSO CLAIMS THAT FERC WILL NOT IMPOSE A HOLD HARMLESS REQUIREMENT ON A UTILITY'S DECISION TO JOIN AN RTO. SPECIFICALLY, MR. SCHNITZER ARGUES THAT THE OFTEN-CITED *ALLIANCE* DECISION SHOULD NOT APPLY TO THE ENTERGY/MISO PROPOSAL. DO YOU AGREE?

Again, without delving into the nuances of Commission precedent, I'm compelled to point out that even by Mr. Schnitzer's own description, *Alliance* clearly recognizes the need for regulators to consider third-party impacts associated with a party's decision to join an RTO. To that extent, *Alliance* appears to contradict the notion advanced by Mr. Schnitzer and Mr. McDonald that third-party impacts should be marginalized in evaluating the Entergy/MISO proposal.

Q. DID THE EVALUATION REPORT OVERSTATE THE POTENTIAL BENEFITS OF JOINING MISO?

A. Yes, in more than one way. Mr. Schnitzer states that the evaluation report provided a conservative estimate of benefits because he assumed that compensation would not be triggered due to the CRA study attempt to limit transfers at 1,000 MW. This fails to recognize that even at transfers of 1,000 MW, SPP's real world experience, as I have already testified, demonstrates that significant congestion will occur. He failed to recognize that in real-time operations, the system is often in a state of multiple contingencies resulting in more congestion that often cannot be modeled in analyses such as the CRA study. He is also mistaken in assuming how the JOA will be renegotiated and when compensation might be triggered. Finally, the CRA study does not reflect how the system will practically be operated to maintain reliability. In failing to reflect actual operations, it further underestimates the congestion that will occur as SPP is forced to take steps to more proactively bind constraints in recognition that the additional congestion will be significantly harder to manage and take longer to resolve.

Q. DO YOU AGREE WITH MR. SCHNITZER THAT FERC'S ORDER[14] ON MISO'S PETITION FOR DECLARATORY ORDER RESOLVED ALL ISSUES REGARDING THE USE OF SPP TRANSMISSION FOR MARKET FLOWS UNDER THE ENTERGY/MISO PROPOSAL?

A. No. I'm not certain I follow Mr. Schnitzer's assertion that the FERC JOA Order "clarified" the issue of compensation. (Schnitzer Rebuttal at 17: 10). FERC stated that the JOA "should be renegotiated" to accommodate EAI joining MISO (in the event EAI does join MISO) and did not state any limitation on the issues and provisions subject to renegotiation under section 3.2 of the JOA.[15] In FERC's words, "MISO and SPP have an obligation to negotiate in good faith in response to revisions (including deleting, adding, or revising requirements or protocols) either MISO or SPP may propose."[16] Indeed, Mr. Schnitzer acknowledges that "protocols" to accommodate MISO's market service under the Entergy/MISO proposal "may be negotiated between MISO and SPP." (Schnitzer Rebuttal at 5: 12-13).

In addition, I note that the FERC JOA Order did not describe any parameters for SPP and MISO's shared use of contract path capacity – i.e., whether such use would be non-firm

[14] See FERC JOA Order.
[15] See FERC JOA Order, paragraph 64.
[16] See FERC JOA Order, paragraph 64.

only and only for up to the amount of contract path capacity that MISO has to Entergy. FERC merely stated that section 5.2 permits such shared use of contract path capacity. Thus, how SPP will be compensated for the excess flow required for MISO to provide market service under the Entergy/MISO proposal is an issue that will need to be addressed as part of any renegotiation.

Q. HAVE THE FERC JOA PROCEEDINGS CONCLUDED?

A. No. Many parties, including SPP,[17] have filed for rehearing or, in the alternative, clarification of the FERC JOA Order[18]. I further understand that following FERC action on rehearing, the JOA orders are subject to review by the courts.

3. <u>APPLICABILITY OF FERC'S ORDER NO. 1000</u>

[17] *See* Request for Rehearing Or, In the Alternative, Clarification of Southwest Power Pool, Inc., Docket No. EL11-34-001 (Aug. 1, 2011) ("SPP Rehearing Request").

[18] In its rehearing request, SPP contends that FERC failed to engage in reasoned decision making in the FERC JOA Order by interpreting the term "contract path" in a manner that is inconsistent with the common industry meaning ascribed to these words. SPP Rehearing Request at 3-13. In SPP's view, FERC failed to support its interpretation of the key phrase "contract paths to the same entity" and ignored crucial evidence presented by SPP that contradicted FERC's findings with respect to that issue. *Id.* at 6-8, 10-12. SPP's rehearing request also highlighted the agency's apparent misunderstanding regarding the parties' prior reliance on section 5.2. *Id.* at 8-10. SPP requested that if FERC fails to reverse its decision and interpret section 5.2 of the JOA consistent with the common industry usage of the term "contract path," FERC should set this issue for hearing to consider extrinsic evidence concerning the original negotiation of the provision. *Id.* at 12-13.

SPP also requested clarification of the FERC JOA Order. SPP, and other parties, requested that FERC clarify the nature and scope of available contract path capacity that is subject to sharing under the JOA. SPP Rehearing Request at 14-18. Specifically, SPP requested that, if FERC did not reverse its interpretation of JOA section 5.2, FERC should clarify that MISO may only use section 5.2 to provide non-firm service for up to the amount of contract path capacity that MISO has with Entergy/EAI. SPP explained that clarifying that section 5.2 provides only for non-firm service is consistent with FERC's holding in *Midwest Independent Transmission System Operator, Inc.*, 135 FERC ¶ 61,205 (2011), where FERC accepted for inclusion in the MISO Tariff a provision virtually identical to JOA section 5.2. SPP Rehearing Request at 14-16. SPP also requested that FERC clarify that MISO's obligation to renegotiate the JOA in good faith includes an obligation to address changes that SPP may propose to all sections of the JOA, including section 5.2. SPP Rehearing Request at 18-21.

Q. IN ORDER NO. 49, THIS COMMISSION DIRECTED PARTIES TO ADDRESS THE IMPLICATIONS OF FERC'S ORDER NO. 1000. MR. SCHNITZER ASSERTS (SCHNITZER REBUTTAL AT 6: 14-16; 38:18 –40: 15) THAT ORDER NO. 1000 PRECLUDES SPP FROM ALLOCATING ANY SPP UPGRADE COSTS TO MISO TRANSMISSION RATES IN THE EVENT THAT EAI AND/OR ENTERGY JOIN MISO. DO YOU AGREE?

A. No. By its terms, Order No. 1000 applies only "to new transmission facilities, which are those transmission facilities that are subject to evaluation, or reevaluation as the case may be, within a public utility transmission provider's local or regional transmission planning process after the effective date of the public utility transmission provider's filing adopting the relevant requirements of this Final Rule."[19] In my Supplemental Initial Testimony to which Mr. Schnitzer refers (see Monroe Supplemental Initial 70:2-12; Schnitzer Rebuttal 39:9-22), I explain that SPP previously has planned over $4 billion in additional facilities to address the reliability and economics of the SPP system. Order No. 1000 further states that: "The requirements of this Final Rule will apply to the evaluation or reevaluation of any transmission facility that occurs after the effective date of the public utility transmission provider's filing adopting the transmission planning and cost allocation reforms of the *pro forma* OATT required by this Final Rule. Each region is to determine at what point a previously approved project is no longer subject to reevaluation and, as a result, whether it is subject to the requirements of this Final Rule." With regard to this assessment, Order No. 1000 compliance filings for regional planning are due October 2012 and for interregional plans are due April 2013.

[19] Order No. 1000 at P 65.

Moreover, inasmuch as these facilities were planned to address the reliability and economics of the SPP system for the use and benefit of SPP members, the costs associated with these facilities are allocated to SPP members. However, should Entergy join MISO (an event which was not included in the SPP planning assumptions when the facilities were identified), some of the capacity created by these previously planned facilities no longer will be available to SPP members. Some reallocation of costs would be necessary if the Entergy/MISO proposal is implemented.

In any event, Order No. 1000 specifically states that the "public utility transmission providers in such transmission planning region may however, negotiate an agreement to share the transmission facility's costs with the beneficiaries in another transmission planning region, as they always have been free to do."[20] In this case, the appropriate forum for such an agreement is the JOA, as Mr. Schnitzer appears to concede, (Schnitzer Rebuttal at 7: 20-23), and it is critical that any ensuing JOA renegotiations address compensation terms dealing with real-time congestion management, transmission usage, and *transmission expansion*. Nothing in Order No. 1000 "precludes" MISO from agreeing to fairly compensate SPP for the use of its system. Nor does Order 1000 preclude a Section 206 filing under the Federal Power Act alleging that MISO's planned uncompensated use of SPP member's transmission facilities constitutes unjust and unreasonable rates.

Q. IN ORDER NO. 1000, FERC ADOPTED SEVERAL REFORMS TO IMPROVE COORDINATION AMONG PUBLIC UTILITY TRANSMISSION PLANNERS

[20] Order No. 1000 at P 658.

WITH RESPECT TO THE COORDINATION OF INTERREGIONAL TRANSMISSION FACILITIES. WHAT IMPACT, IF ANY, WILL THESE REFORMS HAVE ON HOW MISO AND SPP WILL ADDRESS USE OF THE SPP SYSTEM RESULTING FROM ENTERGY JOINING MISO?

A. Order No. 1000 requires "each public utility transmission provider, through its regional transmission planning process, to establish further procedures with each of its neighboring transmission planning regions for the purpose of coordinating and sharing the results of respective regional transmission plans to identify possible interregional transmission facilities that could address transmission needs more efficiently or cost-effectively than separate regional transmission facilities."[21] However, FERC declined "to impose specific obligations as to how neighboring transmission planning regions must share information regarding their needs, and potential solutions to those needs, or identify and jointly evaluate interregional transmission alternatives to those regional needs, as well as proposed interregional transmission facilities," but rather left "to the transmission planning regions in the first instance adequate discretion to allow for the development and implementation of interregional transmission coordination procedures that suit the needs of the neighboring transmission planning regions."[22] Therefore, it will be up to each transmission provider to develop procedures that comply with Order No. 1000. Order No. 1000 compliance filings are still 12 to 18 months away. Undoubtedly, the Entergy/MISO proposal will impact interregional planning between SPP and MISO and will be considered in developing each RTO's Order No. 1000 interregional procedures.

[21] Order No. 1000 at P 396.
[22] Order No. 1000 at P 397.

However, at this juncture, attempting to identify the breadth of planning and coordination issues between MISO and SPP, including issues pertaining to the Entergy/MISO proposal, that will need to be addressed to meet Order No. 1000 compliance requirements, and/or suggesting specific measures to address them is premature and speculative.

VII. DISPUTE RELATED TO EXISTING MISO MARKET FLOWS ON THE SPP SYSTEM

Q. WHY DO YOU BELIEVE MISO, IN ITS RESPONSE TO THE ARKANSAS ATTORNEY GENERAL, DOWNPLAYED THE ISSUE OF MARKET FLOW CALCULATION ACCURACY OR WILLINGNESS TO AT LEAST RECOGNIZE ITS IMPACTS ON SPP?

A. MISO carefully crafted its response to accept any responsibility for itsmarket flow calculation and in doing so provides a response that is misleading.

First, MISO states that it had been working with SPP and PJM since the end of 2009 by participating in the Market Flow Task Force formed under the Congestion Management Process Council ("CMPC") to address SPP's concerns of unreported market flows. The truth is that SPP had been informing MISO of its concerns about high, rapidly fluctuating flows on a critical flowgate in Nebraska since at least October of 2009 and asking for help monitoring and analyzing the situation. SPP, in an attempt to work in a coordinated, collaborative fashion, had several discussions with MISO and entities in Nebraska and Missouri to identify and resolve concerns about MISO market flow impacts on certain SPP flowgates over the next eleven to twelve months. One outcome of SPP's and its members' persistence was that MISO ultimately discovered an error in their calculations that resulted in over 150 MW of MISO's market flows incorrectly reported as firm instead of non-firm. This error was corrected on June 4, 2010. This, however, was not the same issue that SPP continued to raise about an apparent under-accounting of market flows by MISO. This issue did not begin to get serious consideration until September 17, 2010, when the CMPC formed a task force that ultimately became the Market Flow Task Force.

MISO is simply being cautious not to admit any problems with their calculations. When MISO stated that it is calculating its market flows per the procedures defined in the Congestion Management Process ("CMP"), they are technically correct. There is no prescriptive language in the CMP that can be used to find fault with how SPP, MISO, and PJM calculate their market flows, despite some differences between the three. Just because it claims to be in compliance with the CMP and thus disagree that the missing flows is a result of how they calculate market flows does not mean that the impact is properly accounted, creating system reliability and inequity concerns. SPP has accumulated voluminous data and performed numerous analyses demonstrating that significant flows easily correlated to MISO's operation activities are not and have not been properly accounted for in the IDC on certain SPP flowgates. Also the Market Flow Task Force did not consider and was not asked to consider SPP's findings that wind in MISO has created numerous operational issues for SPP. Rather, it was asked to recommend improvements in market flow calculations. Also, besides SPP, that task force was comprised of MISO and PJM (both of which operate under similar methodologies that SPP believes should be improved) so it is not surprising that the task force has not unanimously supported SPP's recommendations for improvements. It is worth noting; however, that MISO has offered recommendations for improvements so they at least recognize that some improvement is needed. Unfortunately, their recommendations do not go far enough to resolve the problem.

SPP has been patient and has made every effort to work with MISO in a collaborative fashion to resolve the market flow calculation accuracy issue but unfortunately that has not provided satisfactory resolution. As a result of the stalemate existing between SPP and MISO, SPP issued MISO a notice of dispute under the JOA on August 10, 2011.[23]

VIII. ENTERGY MISCHARACTERIZED THE ASSUMPTIONS AND RESULTS OF THE CRA STUDIES

Q. IN DESCRIBING ENTERGY'S AUGUST 4, 2011 TESTIMONY FILINGS, MR. MCDONALD STATES THAT: "JOHN P. HURSTELL . . . WILL ADDRESS ALLEGATIONS THAT REQUIRED RESERVE MARGINS UPON JOINING MISO ARE UNCERTAIN; EXPLAIN THAT THE EXPECTED LOWER RESERVE REQUIREMENTS FOR EAI AND THE OTHER OPERATING COMPANIES WITHIN MISO ARE REASONABLE WITH THE CURRENT LEVEL OF INTERCONNECTION BETWEEN EAI AND MISO…" IS THE TOPIC OF RESERVE MARGINS ADDRESSED IN MR. HURSTELL'S AUGUST 4, 2011 TESTIMONY?

A. No. Mr. Hurstell's rebuttal testimony filed on August 4, 2011 addresses reserve sharing issues, but not planning reserves and the reasonableness of the assumptions made by

[23] Attached hereto as Attachment 3.

Entergy in the Join MISO case. It would have been beneficial if Mr. Hurstell had provided testimony in this docket to reflect a Loss-Of-Load Expectation or similar study by MISO or Entergy to justify the key assumption that a 12% planning reserve margin is appropriate if EAI or Entergy were to join MISO. Without documentation that assumption is unsupported.

Q. DO YOU AGREE WITH MR. RILEY'S STATEMENT ON PAGES 36 -38 OF HIS AUGUST 4, 2011 TESTIMONY, WHICH STATES THAT CRA'S STUDIES USED "A COMPREHENSIVE LIST OF THE ENTIRE NERC BOOK OF FLOWGATES, AND WAS SUPPLEMENTED WITH ADDITIONAL FLOWGATES PROVIDED BY BOTH SPP AND THE ENTERGY ENERGY DELIVERY FUNCTION TO ENSURE THAT FACILITIES LIKELY TO BE CONGESTED WERE INCLUDED IN THE ANALYSES?"

A. Not entirely. In my opinion, that statement is misleading. SPP staff did add flowgates to the economic planning models in an attempt to model current constraints given the scope of the FERC approved Entergy CBA. No one can "ensure" that all constraints are captured in models until they analyze the resulting operations of the study objectives. In the E-RSC stakeholder process, we did discuss the need to perform a study of the operations of the systems more extensively based on the change in operations in the Join SPP case to ensure that all constraints were represented. These studies have not been performed and thus additional constraints were not modeled. More importantly, to the best of my knowledge, Entergy and/or MISO staff did not add any new flowgates into the

CRA analyses to ensure that system constraints would be captured in the updated and Entergy CBA addendum studies performed by CRA.

Q. WHY WERE ALL POTENTIAL FLOWGATES NOT REPRESENTED IN THE CRA ANALYSES?

A. It is difficult to capture all flowgates at the beginning of a study, particularly if the study scope is expanded as was the case with the supplemental addendum studies which were completed as part of the Entergy CBA assessments. There is an art to determining what flowgates are appropriate and necessary for future EHV transmission studies since transmission expansion projects, system reconfigurations and the addition/retirements of resources shift flows and create new constraints in the future which are not being monitored today and even expected in the near term. This is especially true after major EHV expansion projects such as the SPP Balanced Portfolio or Priority Projects or MISO's MVP projects which will not only remove existing constraints but create new ones. SPP engineers did add new flowgates in an attempt to capture new constraints after the Balanced Portfolio and Priority Projects projects were installed, but similar efforts were not done in the Entergy and MISO systems which will tend to understate congestion impacts in these simulations. Changes to study scopes, e.g., the evaluation of MISO as an alternative for EAI, should have been considered at the forefront of the Entergy CBA studies sponsored by FERC to ensure that modeling did not result in an apples and oranges comparison.

Q. IN ADDITION TO THE CRA STUDY, HAVE RECENT INTER-REGIONAL STUDIES PROVIDED ANY INFORMATION THAT MAY BE USEFUL TO

REGULATORS IN DECIDING WHAT IS THE BEST FUTURE STATE OF ENTERGY?

A. Yes. The Joint Coordinated System Plan ("JCSP"), Eastern Wind Integration and Transmission Study ("EWITS"), and Eastern Interconnection Planning Collaborative ("EIPC") have all demonstrated that SPP and other systems in the southeastern United States need to be more tightly integrated with EHV transmission facilities.

Transmission capacity defines and enables markets. Therefore, it is hard to believe that broader interregional needs should be driven by market structures, rather than by physical system needs and expansion which addresses economic and reliability objectives. The most recent EIPC Future 2 contemplates and expects that the market flows will be primarily west to east and between natural markets. That finding is not unique to Future 2, but almost all of the federal or inter-regional scenarios being evaluated by the EIPC. As noted by Nick Brown in the SPP news release of July 12, 2011, "All evidence we've seen makes it clear that membership in SPP would bring greater value to Entergy. SPP and Entergy began our partnership in 1941 to serve our region and nation, and we want to continue doing what's best for our region – including what is best for all Arkansas customers. If Entergy joins SPP as a full member, two large adjacent power grids will be consolidated, Entergy will have a voice in SPP's decision-making process, it will continue contributing to our regional energy reserves, and the APSC will have real and meaningful influence through SPP's Regional State Committee."

Q. HAVE THERE BEEN ANY OTHER STUDIES INVOLVING SPP AND ENTERGY WHICH MIGHT BE OF INTEREST TO THE APSC?

A. Yes. EPRI and LCG Consulting have been working with SPP, Entergy, TVA, Southern Company and a few others to investigate the impacts of inter-hour scheduling to deal with potential wind resources in SPP to serve markets in SERC Reliability Corporation. This study did not consider Entergy as MISO-S for obvious reasons since no other major inter-regional studies have considered or determined that Entergy being part of MISO was a logical option.

Q. IS SPP AWARE OF DESIRED FUTURE TRANSACTIONS THAT INDICATE THAT SPP AND ENTERGY ARE NATURAL MARKETS?

A. Yes. Service requests have been made by many customers historically between SPP and Entergy to allow more efficient operations to benefit SPP and Entergy customers. That is not surprising given the historical relationships, joint assets and potential opportunities for transactions between SPP and Entergy. In addition, there are many existing requests for long term firm transmission service between SPP and Entergy now that represent to SPP that natural markets are with SPP and Entergy, not MISO and Entergy.

IX. <u>CONCLUSION</u>

Q. IN YOUR SUPPLEMENTAL INITIAL TESTIMONY FILED JULY 12, 2011, YOU IDENTIFIED FOUR ACTIONS SPP PLANS TO TAKE TO PROTECT ITS MEMBERS FROM FINANCIAL HARM AND RELIABILITY RISK SHOULD ENTERGY JOIN MISO. COULD YOU EXPAND UPON THOSE FOUR OPTIONS AND EXPLAIN EACH?

A. I would be happy to. First, SPP will seek fair and equitable compensation for usage of its facilities. To determine the harm that this action is intended to protect against, SPP would have to determine on an ongoing basis the amount of loop flows occurring on its system that would not otherwise exist if EAI did not join MISO. Rather than trying to determine this once EAI is integrated into MISO's market, SPP would propose a negotiated agreement with MISO that requires both Parties to compensate each other for their loop flows. SPP proposed a couple of ways to determine the appropriate level of compensation for loop flows.

Second, SPP will seek appropriate sharing of redispatch costs necessary to reliably manage the system. The increased flows that are expected as a result of EAI or Entergy joining MISO, will increase the amount of congestion and redispatch necessary to reliably manage the system. To the extent SPP has to redispatch as a result of MISO using more of SPP's system than it has rights to use, SPP will seek compensation. SPP will consider the appropriateness of using market-to-market procedures that are currently in place between MISO and PJM to address sharing redispatch costs that are necessary to reliably manage the system.

Third, SPP will seek appropriate sharing of costs for currently planned and any future transmission upgrades that will facilitate MISO's dispatch of energy to Entergy. SPP expects MISO to share costs of upgrades that are identified as necessary to address reliability issues, meet policy-driven needs, and/or realize economic benefits that are in some aspect common and provide benefits to both SPP and MISO. SPP proposes to utilize the principles currently being developed by its Regional State Committee for sharing costs on seams projects. Until that work is completed, seams project cost allocation principles contained in a similar whitepaper developed by SPP's Seams Steering Committee can be utilized.

Fourth, SPP will consider potential transmission solutions that redirect MISO's flow away from SPP's system onto MISO's system in order to appropriately impose costs and impacts on the "causer" of those costs and impacts. Analysis of both historical and future expected flows imposed by MISO upon SPP that creates significant economic or reliability burdens for SPP will be considered in the development of transmission expansion solutions that remove those flows from SPP facilities to MISO facilities. This would be a last resort assuming that SPP does not receive satisfactory resolution of the previous three issues above. If MISO is not incented to help SPP deal with flows it imposes on SPP, then moving those flows to MISO might be the only way to incent proper transmission expansion and protect SPP from reliability risks. Similar solutions have been established through the construction of Phase Angle Regulators between PJM and New York Independent System Operator and at the Michigan-Ontario interface.

Q. DO YOU BELIEVE THAT AN ISO/RTO PARTICIPATION IS VOLUNTARY?

A. Yes, but voluntary participation in ISOs/RTOs must be reasonable. As I have said before, transmission capacity defines and enables markets, but that concept like anything else has limitations too. Mechanisms like contract paths, pseudo ties, etc. are not effective tools to truly integrate markets. Organic growth to expand markets into adjacent regions with strong electrical ties and historically significant relationships makes sense.

Q. DO YOU BELIEVE MISO TO BE THE BETTER CHOICE FOR EAI/ENTERGY AND ARKANSAS RATEPAYERS?

A. No. SPP has stated many times that the ICT structure was put in place as an interim measure leading to Entergy's membership in an RTO. Obviously this proceeding is yet another indication that those statements were correct. Certainly, we've all learned from the experiences under the ICT structure, but there have been many other developments in addition to the formation of the ICT which put all of us at the point that we are today. I have continually stated and obviously believe that SPP is the right RTO for Entergy and EAI and in the best interest for Arkansans. The added complexities and risks of Entergy joining MISO could easily outweigh the potential benefits.

EAI and MISO express opinions that relate only to the impact on EAI. However, this Commission is responsible for ensuring the public interest is being served and should weigh and judge all considerations and make a the best decision for EAI and all Arkansas ratepayers.

There are many facts and opinions which the Commission has and will consider in making its decision, but I want to close with these points:

1. The only study conducted at the direction of this Commission by an independent consultant chosen and directed by the E-RSC and FERC found SPP to provide the most benefit**;**

2. The SPP RSC determines cost allocation for transmission upgrades and the continuing equity of the actual resultant cost allocation, among significant other authorities;

3. The existing and planned transmission links between EAI/Entergy and SPP are much stronger than those to MISO;

4. There is no certainty that within even the next ten years that meaningful new transmission will even be authorized should EAI/Entergy join MISO. Should EAI/Entergy join MISO there will be issues regarding compensation for the use of affected transmission systems including those of SPP members. The JOA issue is far from being finally resolved and the studies sponsored by EAI/Entergy do not assign any costs for the use of others transmission; and

5. Markets are important, very important, but RTO membership is a long-term decision and the ninety-day difference between SPP's market start and the Entergy/EAI planned date for integration into MISO should not be the determining factor.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes

AFFIDAVIT

STATE OF ARKANSAS)

COUNTY OF PULASKI)

I, **Carl A. Monroe**, being duly sworn according to law, state under oath that the matters set forth in my Testimony in this docket are true and correct to the best of my knowledge, information and belief.

Carl A. Monroe

____

Carl A. Monroe

Subscribed and sworn to before me, a Notary Public, on this 18th day of August, 2011.

Michelle Harris

____

Notary Public

My Commission Expires: 04·01·2018

MICHELLE HARRIS
Notary Public-Arkansas
Pulaski County
My Commission Expires 04-01-2018
Commission # 12365480

SEAL

ATTACHMENT 1

Impacts on Administrative Fee
for SPP Members Operating in Arkansas

Estimated Sch 1 A Impact of ETR Joining v. Not Joining SPP on AR Ratepayers (Diff. based on Loss of ETR Load and ETR's ICT), Total over the Next 10 Years without Discounting June, 30, 2011					
Zone	**Total of All States, 10 years of Differentials, where these Zones do business ($000)**	**% in AR**	**$ in AR ($000)**	**Total Increase in All States ($000)**	**Total Increase in AR ($000)**
AECC	**$ 10,193**	**100.0%**	**$ 10,193**	**$ 159,328**	**$ 34,113**
EDE	**$ 14,734**	**2.9%**	**$ 427**		
OGE	**$ 71,406**	**13.0%**	**$ 9,269**		
SWEPCo	**$ 62,996**	**22.6%**	**$ 14,224**		

ATTACHMENT 2

membership believe is a better way to make the decisions is through that consensus process.
Q. Okay. Let's take it from a different angle. You just said one of your Hallmark moment here -- moments here is the highway/byway cost allocation and that came out of the RSC; correct?
A. Uh-huh.
Q. That's where all the regulators sit together; correct?
A. Uh-huh.
Q. All right.
A. Of which if Entergy joined totally, they would have five, I believe, seats out of 10 or --
Q. Okay.
A. -- six out of 11 or something like that.
Q. All right.
A. Five out of 11.
Q. And you're familiar with Entergy over time, correct, as far as -- let me back up.
Are you familiar with some of the disputes that have gone on within the Entergy system over time as far as cost allocation?
A. Some, yes.
Q. All right. I'll ask the same question a different angle. How do you expect people who have had a litigious

relationship for almost 30 years on the issue of cost allocation to sit on a new committee and reach consensus on that very issue? Is Dr. Phil on your staff? Is he going to help you out?

MR. SKINNER: Let me make sure I -- are we talking about litigious members of commission members?

MR. BREEDVELD: Yeah.

MR. SKINNER: Sitting on the R -- we're talking about the RSC?

MR. BREEDVELD: Right.

MR. SKINNER: Okay. I'm sorry.

MR. MONROE: The experiences we've had is bringing together a set of regulators who were opposed to issues to a point where they determined that they wanted to go forward with these proposals that we've said they're going forward with. So experiences, we've had the experience of going through that process and have had success through that.

BY MR. BREEDVELD (CONT.):

Q. And my question goes to not just differences of opinion on an issue, but opposition to each other, individuals. Have you had that experience?

A. Yes.

Q. And you've been able to resolve it? Give me an example.
A. When we formed the Regional State Committee, the -- particularly regulators from different states had opposition to moving forward with any kind of regional cost allocation.
Q. Have you had any situations where members, their regulators, have filed complaints repeatedly seeking to allocate costs to another member?
A. I don't think that we've had any of those, no.
Q. Okay. And just to come back to it, if there's -- if a consensus can not be obtained --
MR. BREEDVELD: Sure, go ahead, sir.
MR. SKINNER: Again, counsel, are we -- when we talk -- when we talk about consensus now, are we talking about the RSC or now -- are we now talking about consensus of member companies?
MR. BREEDVELD: Actually, I was going to ask both.
MR. SKINNER: Okay.
BY MR. BREEDVELD (CONT.):
Q. If consensus can not be obtained among regulators at the RSC --
A. Uh-huh.

ATTACHMENT 3

SPP Southwest Power Pool

HELPING OUR MEMBERS WORK TOGETHER
TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

Nicholas A. Brown, President & CEO

August 10, 2011

John Bear
President & CEO
Midwest ISO
720 City Center Drive
Carmel, IN 45032

Hello John,

Southwest Power Pool, Inc. ("SPP") hereby gives this Notice of Dispute to the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") and requests commencement of dispute resolution procedures pursuant to Section 14.2 of the Joint Operating Agreement ("JOA") between Midwest ISO and SPP.

SPP first informed Midwest ISO on August 27, 2010 that it had observed parallel market flows from MISO on SPP flowgates that did not appear to be properly accounted for in the NERC Interchange Distribution Calculator ("IDC"). SPP requested joint research of suspected market flow calculation inaccuracies. On September 17, 2010, the Congestion Management Process Council ("CMPC") formed a task force to research and recommend needed improvements in market flow calculations. This task force consisted of representatives from SPP, Midwest ISO, and PJM Interconnection, L.L.C. The task force worked for a period of several months before presenting a position paper to the CMPC in March 2011. Although Midwest ISO generally agreed that improvements needed to be made in its market flow calculations, the position paper reflected that SPP and Midwest ISO disagreed regarding the nature and urgency of the improvements to be made, particularly with respect to how imports should be modeled. Further work was requested of the task force and recommendations were brought back to the CMPC in June 2011; however, SPP and Midwest ISO were unable to resolve their disagreement through this process and the CMPC took no action to conclude the matter.

SPP members have experienced significant detrimental impacts related to Midwest ISO's parallel flows over the last two summers, and the high percentage of Midwest ISO's actual market flows that are not being reported to the IDC creates a severe burden on SPP members that is not equitable and creates unnecessary reliability risks. SPP believes this inaccuracy in the reporting of market flows is a result of how Midwest ISO accounts for its imports in the calculation. Pursuant to Attachment 1, Section 4.1 to the JOA, the Congestion Management Process requires that "imports into or exports out of the market area, and tagged grandfathered transactions within the market area, must be properly accounted for in the determination of Market Flows."

SPP and Midwest ISO have been unable to resolve how imports should be reflected in the market flow calculations and, as such, have a dispute. Hence, SPP requests that a meeting of the Seams Agreement Coordinating Committee be held within ten days of this notice, pursuant to section 14.2.1 of the JOA, as Step One under the JOA dispute resolution procedures to resolve the dispute.

Take Care,

CERTIFICATE OF SERVICE

I, Erin E. Cullum, attorney of record for Southwest Power Pool, Inc., do hereby certify that I have, on this 18th day of August, 2011, duly served a true and correct copy of the above and foregoing pleading upon all parties of record by electronic mail.

Erin E Cullum

Erin E. Cullum