141 FERC ¶ 61,149
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Southwest Power Pool, Inc. Docket No. ER12-2387-002

ORDER ACCEPTING TARIFF REVISIONS

(Issued November 20, 2012)

1. On August 2, 2012, as amended on September 26, 2012, pursuant to section 205 of the Federal Power Act (FPA),[1] Southwest Power Pool, Inc. (SPP) submitted revisions to Attachment H (Annual Transmission Revenue Requirement for Network Integration Transmission Service) and Attachment T (Rate Sheets for Point-To-Point Transmission Service) of its open access transmission tariff (Tariff).[2] The proposed revisions, as amended, update the revenue requirements and associated rates in order to implement the initial reallocation of revenue requirements pursuant to SPP's Balanced Portfolio cost allocation methodology (Balanced Portfolio Process). In this order, we accept SPP's Tariff revisions, as discussed further below.

I. Background

2. On October 16, 2008, the Commission accepted, subject to modification, SPP's Balanced Portfolio Process, which established procedures to evaluate a group or portfolio of economic transmission projects to be included in SPP's Transmission Expansion Plan (STEP) and to recover the costs of such upgrades on a region-wide postage stamp basis.[3]

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[1] 16 U.S.C. § 824e (2006).

[2] On August 14, 2012, SPP requested deferral of Commission action on the August 2, 2012 filing following the Commission's acceptance of The Empire District Electric Company's (Empire) proposed formula rate template and implementation protocols and until the Commission issued an order in SPP's July 23, 2012 filing to revise the SPP Tariff accordingly. *See Empire District Electric Company*, 140 FERC ¶ 61,087 (2012), and Docket No. ER12-2289-000, *Federal Register*, 77 Fed. Reg. 45,348 (2012).

[3] *See Southwest Power Pool, Inc.*, 125 FERC ¶ 61,054 (2008) (October 2008 Order); *order on reh'g and compliance*, 127 FERC ¶ 61,271 (2009); *order on reh'g and compliance*, 137 FERC ¶ 61,227 (2011).

In order for a portfolio of economic upgrades to qualify for such cost allocation, the portfolio must be "balanced." A portfolio is "balanced" when the adjusted production cost benefits calculated for each zone are simultaneously equal to or greater than the costs allocated to each zone based on a ten-year planning horizon.

3. To achieve this balance as the actual construction costs of the projects are included in rates, the Balanced Portfolio Process contains a reallocation mechanism whereby a portion of a zone's zonal revenue requirement may be reallocated to the region-wide postage stamp revenue requirement. SPP states that this method of balancing is to benefit deficient zones by reducing their costs and to ensure that no zone is disadvantaged by paying costs for economic upgrades for which it receives little or no benefit.[4] The reallocation mechanism is triggered when at least 10 percent of the costs associated with the projects in an approved Balanced Portfolio have been included in rates under the Tariff. Specifically, section IV.A.1 of Attachment J (Recovery of Costs Associated with New Facilities) of SPP's Tariff provides that:

> The initial reallocation of the Reallocated Revenue Requirements for the deficient Zones(s) to the Balanced Portfolio Region-wide Annual Transmission Revenue Requirement shall occur when at least 10% of the estimated levelized annual transmission revenue requirements for the approved Balanced Portfolio has been included in rates under the Tariff (the Trigger Date).[5]

4. According to the Balanced Portfolio Process, on the Trigger Date, 20 percent of the reallocated revenue requirements are transferred to the balanced portfolio region-wide revenue requirement total. On the anniversary of the Trigger Date in the subsequent four years, an additional 20 percent of the reallocated revenue requirement is transferred to the total balanced portfolio region-wide revenue requirement total.[6]

II. SPP's Filings

5. SPP's August 2, 2012 filing proposes revisions to update the revenue requirements and associated rates in order to implement the initial reallocation of revenue requirements pursuant to the Balanced Portfolio Process. SPP states that the 10 percent Trigger Date was met as of January 1, 2012, thus prompting the initial reallocation of revenue

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[4] According to SPP, a zone is "deficient" if the costs allocated to the zone associated with the projects included in the Balanced Portfolio are greater than the benefits (adjusted production cost savings) those projects were estimated to provide to that zone in the ten-year study horizon. *See* SPP's August 2, 2012 Filing at 3.

[5] SPP Tariff, Attachment J, section IV.A.1.

[6] *Id.*

requirements from the deficient zones' zonal revenue requirement to the Balanced Portfolio region-wide revenue requirement. SPP explains that its proposed Tariff revisions represent the first incremental transfer of 20 percent of the balance transfers for those entities that do not have formula rate templates approved by the Commission and SPP updates the revenue requirements and associated rates for those affected SPP transmission owners. SPP asserts that its proposed Tariff revisions are necessary to update revenue requirements and associated rates based on the initial reallocation of revenue requirements required by the Balanced Portfolio Process.

6. In the August 2, 2012 filing, SPP also notified the Commission that SPP is initiating an unintended consequences review of this Balanced Portfolio of projects pursuant to Attachment J, section IV.B of the Tariff. SPP states that when it completes the analysis, SPP will provide a report and make a recommendation to SPP's Markets and Operations Policy Committee.[7]

7. As noted above, SPP subsequently requested that the Commission defer action on the August 2, 2012 filing because it would be affected by the Commission's order in the Empire formula rate proceedings.[8] SPP's September 26, 2012 filing contained: (1) a motion to amend the August 2, 2012 filing as a result of an administrative oversight (SPP incorrectly reflected the impact of the balance transfers on the City of Springfield's zone) and to reflect Commission action in the Empire formula rate proceedings;[9] and (2) a motion to amend its answer in this proceeding.[10]

8. As in its August 2, 2012 filing, SPP requests that the Commission accept its proposed revisions effective October 1, 2012, for the initial reallocation of 20 percent of the estimated costs, and October 1 of each year for all subsequent annual reallocations for years two through five. SPP states that its requested effective dates coincide with the dates on which SPP begins settling its monthly transactions, which is the first day of each

[7] SPP August 2, 2012 Filing at 5.

[8] *See supra* n.2.

[9] On July 31, 2012, the Commission accepted and suspended for five months Empire's formula rate template to become effective January 1, 2013, subject to refund, and set the matter for hearing and settlement procedures. SPP asserts that this requires modification of the August 2, 2012 filing to include Empire's currently approved revenue requirement, rather than the formula rate that will not be effective until January 1, 2013.

[10] SPP states that upon review of the intervenors' pleadings submitted in response to the August 2, 2012 filing, SPP incorrectly interpreted the comments as protests. Thus, SPP requests that the Commission strike all references to "protests" or "protesters" from SPP's answer.

month. Thus, SPP contends that an October 1 effective date will reduce the administrative burden on SPP's settlements department.

III. Notice of Filings and Responsive Pleadings

9. Notice of SPP's August 2, 2012 filing was published in the *Federal Register*, 77 Fed. Reg. 48,137 (2012), with interventions and protests due on or before September 4, 2012. Timely motions to intervene were filed by: Westar Energy, Inc.; American Electric Power Service Corporation; Kansas City Power & Light Company (KCP&L) and KCP&L Greater Missouri Operations Company (collectively, KCP&L-GMO); Empire; and Kansas Corporation Commission.

10. Timely motions to intervene and comments were filed by: Midwest Energy Corporation (Midwest); jointly by Golden Spread Electric Cooperative, Inc., Sunflower Electric Power Corporation, and Mid-Kansas Electric Company, LLC (Western SPP G&Ts); Xcel Energy Services Inc. (Xcel); and Western Farmers Electric Cooperative (Western Farmers).

11. Lincoln Electric System, and jointly, East Texas Electric Cooperative, Inc., Northeast Texas Electric Cooperative, Inc., and Tex-La Electric Cooperative of Texas, Inc. (East Texas Cooperatives) filed motions to intervene out-of-time.

12. Empire, KCP&L-GMO, and SPP filed answers to comments.

13. Notice of SPP's motion to defer action on the August 2, 2012 filing was published in the *Federal Register*, 77 Fed. Reg. 51,992 (2012). Notice of SPP's September 26, 2012 filing was published in the *Federal Register*, 77 Fed. Reg. 60,978 (2012), with interventions and protests due on or before October 17, 2012. None were filed.

A. Comments

14. Commenters note that they do not protest SPP's filing, but they request that the Commission defer action on it, or accept it by delegated letter order, to allow the unintended consequences review process to address the issues raised by commenters. Such action would be without prejudice to parties in the affected zones to seek relief pursuant to applicable procedures at a later time.[11]

15. Commenters assert that the process by which SPP determines whether a portfolio remains balanced, and on which SPP bases revenue reallocation, is flawed. Commenters contend that SPP uses the same benefits that it estimated at the time the balanced portfolio was approved, while SPP has trued up the estimated project costs to reflect the

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[11] Midwest Comments at 15; Western SPP G&Ts Comments at 1, 9-10; Xcel Comments at 2-3; Western Farmers Comments at 8-9.

actual project costs, which results in a faulty comparison and thus fails to achieve the intended balance.[12] According to commenters, when the Balanced Portfolio Process was undertaken, much of the projected benefits were production cost savings made possible by the displacement of natural gas-fired generation with wind energy. However, commenters contend that natural gas prices have unexpectedly declined dramatically and are forecasted to remain low for several years.[13] In addition, Midwest notes that other benefits that were not included when SPP originally developed the Balanced Portfolio Process have not been captured in the balancing process.[14]

16. Moreover, commenters note that the actual costs of the Balanced Portfolio projects have increased by more than 30 percent, from $692 million to $896 million.[15] Commenters assert that the cost increase has reduced the number of beneficiary zones from seven to five, thus reducing the percentage of customers responsible for paying for reallocated revenues from over 50 percent of load to approximately 18 percent of load. Commenters contend that the Balanced Portfolio true-up and resulting reallocation is creating a situation in which a small number of utilities bear a disproportionate share of the cost increases, while seeing the benefits of the Balanced Portfolio projects decline.[16]

17. Xcel notes that in the August 2, 2012 filing, SPP requested an effective date of October 1, 2012, for the initial reallocation of the revenue requirement, and October 1 for all subsequent annual transfers for years two through five. However, Xcel contends that SPP's request for deferral of action on that filing does not address any impact of the deferral on the effective date of the initial reallocation.[17]

B. Answers

18. Empire asserts that SPP has conducted a mechanical implementation of the Balanced Portfolio Process, and that the Tariff provisions incorporating the results of the

[12] Midwest Comments at 9, 14; Western SPP G&Ts Comments at 12-13; Xcel Comments at 6; Western Farmers Comments at 5.

[13] Midwest Comments at 14; Western SPP G&Ts Comments at 12-13; Xcel Comments at 6; Western Farmers Comments at 5.

[14] Midwest Comments at 14-15.

[15] Midwest Comments at 11; Western SPP G&Ts Comments at 12-13; Xcel Comments at 7; Western Farmers Comments at 6-7.

[16] Midwest Comments at 12-14; Western SPP G&Ts Comments at 9, 12-13; Xcel Comments at 7-8; Western Farmers Comments at 7-8.

[17] Xcel Comments at 9.

Balanced Portfolio Process underwent an exhaustive stakeholder review and approval process before being filed and accepted by the Commission.[18] SPP and Empire contend that, as required by SPP's Tariff, SPP used data inputs provided by transmission owners and/or entities responsible for construction of the upgrades, as well as an adjusted production cost metric to project the first ten years of benefits of the Balanced Portfolio.[19] SPP and Empire assert that none of the commenters raise any objections to SPP's compliance with the Tariff provisions.[20] Therefore, Empire argues that this section 205 filing is not the appropriate proceeding to address the concerns raised by commenters regarding how the Balanced Portfolio Tariff provisions function. According to Empire, commenters may choose to file a separate section 206 complaint to initiate an investigation regarding the justness and reasonableness of those Tariff provisions.

19. SPP, Empire, and KCP&L-GMO contend that commenters generally seek to delay the effective date of SPP's filing until after an unintended consequences review is completed under section IV.B of Attachment J of the Tariff. However, SPP and KCP&L-GMO point out that section IV.A.1 of Attachment J of the Tariff expressly provides that the Trigger Date for the initial reallocation of the Balanced Portfolio revenue requirements shall occur when at least 10 percent of the Balanced Portfolio revenue requirements have been included in rates under the Tariff.[21] SPP and KCP&L-GMO note that this event occurred on January 1, 2012. Accordingly, they contend that the initial reallocation will already be delayed for nine months past the Trigger Date. SPP, Empire, and KCP&L-GMO contend that a further delay of the initial reallocation would contravene the language and intent of the Tariff to implement the initial reallocation when 10 percent of the revenue requirements are included in rates.[22]

20. SPP, Empire, and KCP&L-GMO also claim that further delaying the initial reallocation until the completion of the unintended consequences review would cause an uncertain and indefinite delay.[23] SPP, Empire, and KCP&L-GMO argue that section IV.B of Attachment J creates a process for the unintended consequences review that includes reports and recommendations by the transmission provider and by the Markets and Operations Policy Committee, and a vote by the SPP Board of Directors. However, SPP, Empire, and KCP&L-GMO point out that there is no specified time limit for the

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[18] Empire Response at 3.

[19] SPP Answer 4-6; Empire Response at 3.

[20] *Id.*

[21] SPP Answer at 6-9; KCP&L Response at 2.

[22] SPP Answer at 9; KCP&L-GMO Response at 2; Empire Response at 5-6.

[23] SPP Answer at 8; KCP&L-GMO Response at 3; Empire Response at 5.

completion of this process, and there is no certainty that any reconfiguration will be successfully developed and then approved by the SPP Board of Directors.[24]

21. SPP clarifies that it does not intend for its request to defer action on the August 2, 2012 filing to affect the requested October 1, 2012 effective date, because the purpose of the request was to allow SPP to comply with Commission orders in collateral dockets.[25]

IV. Discussion

A. Procedural Matters

22. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2012), the timely, unopposed motions to intervene serve to make the entities that filed them parties to the proceeding.

23. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure 18 C.F.R. § 385.214(d) (2012), the Commission will grant Lincoln Electric System and the East Texas Cooperatives' late-filed motions to intervene given the entities' interests in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

24. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2012), prohibits an answer to a protest or answer unless otherwise ordered by the decisional authority. We will accept Empire and KCP&L-GMO's responses and SPP's answer because they have provided information that has assisted us in our decision-making process.

B. Commission Determination

25. The Commission accepts, effective October 1, 2012, SPP's proposed Tariff revisions to update the revenue requirements and associated rates in order to implement the initial reallocation of revenue requirements pursuant to the Balanced Portfolio Process, and effective October 1 for all subsequent annual reallocations for years two through five. We find that SPP has properly implemented the Balanced Portfolio Process to reallocate revenue requirements associated with the Balanced Portfolio projects as approved by the Commission. SPP's proposed Tariff revisions in this filing merely update the revenue requirements and associated rates in Attachments H and T of its Tariff in order to implement the initial reallocation of revenue requirements as mandated by the Balanced Portfolio Process.

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[24] *Id.*

[25] SPP Answer at 12.

26. We find that commenters' concerns involve issues outside the scope of this section 205 proceeding to update the revenue requirements of transmission owners that do not have formula rates to reflect the initial reallocation pursuant to the Balanced Portfolio Process. While the estimated costs for the Balanced Portfolio projects may have increased since the projects were initially approved through SPP's stakeholder process, this does not release SPP from its duties of implementing its Tariff provisions. Moreover, SPP is currently undertaking an unintended consequences review of this Balanced Portfolio. According to SPP, it is currently in the beginning stages of the review.[26] Some commenters request that the Commission defer action in this proceeding until SPP has concluded its unintended consequences review, but we find that this is unwarranted. We find that SPP has appropriately calculated the reallocated revenue requirements as required under the Balanced Portfolio Process, and the revisions to Attachments H and T proposed in this filing update the Tariff to reflect the reallocation of the revenue requirements following the Trigger Date. In fact, none of the commenters claim that SPP has incorrectly applied its Tariff provisions.

The Commission orders:

(A) SPP's Tariff revisions, as amended, are accepted for filing, effective October 1, 2012, and October 1 for all subsequent annual reallocations for years two through five, as discussed in the body of this order.

(B) SPP's motion to amend SPP's Answer in this proceeding is granted.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

[26] SPP Answer at 8.

Document Content(s)

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