

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Southwest Power Pool, Inc.                    )                   Docket Nos. ER12-2525-000  
  )                   ER12-2525-001

**MOTION FOR LEAVE TO ANSWER AND ANSWER  
OF SOUTHWEST POWER POOL, INC.  
TO PROTESTS**

Southwest Power Pool, Inc. (“SPP”) hereby requests permission from the Federal Energy Regulatory Commission (“Commission”) to answer (“Answer”), and submits this Answer to the Protest of Flat Ridge 2 Wind Energy LLC<sup>1</sup> (“Flat Ridge”) and the Motion to Intervene and Protest of the City of Independence, Missouri<sup>2</sup> (“Independence”) filed in this proceeding on December 21, 2012 (“Flat Ridge Protest” and “Independence Protest,” respectively). The Commission should reject the Protests to SPP’s Response to Commission’s October 31 Deficiency Letter (“Deficiency Response”)<sup>3</sup> because the Protests provide inaccurate representations regarding SPP’s request to modify transmission rates for through-and-out transmission service in this docket (“August 27 Filing”).<sup>4</sup> Further, Flat Ridge has proposed revisions outside the purview of SPP’s

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<sup>1</sup> Protest of Flat Ridge 2 Wind Energy LLC, Docket No. ER12-2525-000, -001 (Dec. 21, 2012).

<sup>2</sup> Motion to Intervene and Protest of the City of Independence, Missouri, Docket No. ER12-2525-000 (Dec. 21, 2012).

<sup>3</sup> Response to Commission’s October 31 Deficiency Letter of Southwest Power Pool, Inc., Docket No. ER12-2525-001 (Nov. 30, 2012) (“Deficiency Response”).

<sup>4</sup> Revised Schedule 11 Rates for Through and Out Transmission Service of Southwest Power Pool, Inc., Docket No. ER12-2525-000 (Aug. 27, 2012) (“August 27 Filing”).

stakeholder process, and has provided no justification for its proposal. Additionally, SPP's proposed rate modifications are just and reasonable and have been thoroughly vetted and supported by SPP's stakeholder process and should therefore be accepted by the Commission.

## **I. MOTION FOR LEAVE TO ANSWER**

Rule 213(a)(2) provides that a party may answer a protest in circumstances where the decisional authority permits the answer for good cause shown. The Commission has permitted answers to protests that clarify the record, contribute to an understanding of the issues or assist the decision-making process.<sup>5</sup> This Answer will assist the Commission in its decision-making process, will ensure a complete record, and will provide information helpful to the disposition of key issues. Therefore, good cause exists to grant this motion for leave to answer.

## **II. ANSWER**

### **A. AN AVERAGE ZONAL RATE FOR THROUGH-AND-OUT TRANSMISSION SERVICE IS JUST AND REASONABLE.**

The principal points in the Flat Ridge Protest, that SPP has failed to provide ample justification for the August 27 Filing and that the rate change is a complete unraveling of the rate making principles of SPP's Highway/Byway planning process, are

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<sup>5</sup> See, e.g., *Sw. Power Pool, Inc.*, 141 FERC ¶ 61,149, at P 24 (2012) (accepting answers that aided the Commission's decision-making); *Sw. Power Pool, Inc.*, 135 FERC ¶ 61,223, at P 27 (2011) (same); *Sw. Power Pool, Inc.*, 132 FERC ¶ 61,042, at P 28 (2010) (same), *reh'g denied*, 136 FERC ¶ 61,050 (2011); *S. Natural Gas Co.*, 121 FERC ¶ 61,118, at P 5 (2007) (answer to protest accepted because it assisted the Commission in understanding the issues and ensured a complete record); *N.Y. Indep. Sys. Operator, Inc.*, 121 FERC ¶ 61,112, at P 4 (2007) (answer to protest accepted because it provided information that assisted the Commission in its decision making process).

hyperbole at best. Without resorting to a restatement of justifications already presented in this docket, SPP would reiterate that the rate change proposed by SPP does not undermine or otherwise affect the Highway/Byway cost allocation method for transmission service within SPP that was developed to determine pricing for transmission service specifically designated for SPP load.<sup>6</sup> By nature, through-and-out transmission service utilizes SPP transmission facilities to service load outside SPP's transmission footprint.

The Flat Ridge Protest reference to SPP's current rate design that produces variability amongst internal customers needs further clarification. In its Protest, Flat Ridge argues that "SPP's long-standing and current rate design is that it is designed to produce variability among customers, all of whom use the same regional SPP transmission system, based on the zone in which their [Point of Delivery ("POD")] is located."<sup>7</sup> While this is true of the rate design for internal customers with a specific POD which is located inside SPP's footprint, the variability reflects the differences in the costs of local transmission facilities required to get power to the various delivery points of SPP's network customers, which do vary from pricing zone to pricing zone. Flat Ridge does not explain, or simply ignores, the fact that external customers who utilize SPP's transmission system to service load external to SPP do not have a POD within SPP. By definition, through and out rates deliver power to loads external to the SPP footprint, sometimes several states away, so a simplistic application of SPP zonal pricing is not applicable.

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<sup>6</sup> See Deficiency Response at 4.

<sup>7</sup> Flat Ridge Protest at 4.

Indeed, through-and-out transactions have POD designations to external entities (such as Ameren Corporation, Associated Electric Cooperative, Inc., and the Tennessee Valley Authority). These PODs are geographically located in a non-SPP area and do not have costs recoverable under SPP's Open Access Transmission Tariff ("Tariff"). To put it another way, through-and-out transmission service may impact multiple SPP zones but, for settlement purposes, are designated to a POD with a non-Tariff /non-rate designation external entity with no recoverable costs. Under the current Tariff, SPP bases its transmission charge for through-and-out service on the least-cost zone interconnected with the external POD. However, as has been explained in both the August 27 Filing and the Deficiency Response, the continued use of the least-cost interconnected zone methodology has resulted in substantial inequities between internal and external customers. The result is that the average transmission rate paid by external load is lower than the average transmission rate paid by load within the SPP footprint under Schedule 11.

Furthermore, the implementation of the Balanced Portfolio reallocations, approved by the Commission to become effective in 2012,<sup>8</sup> has highlighted the need to address the issue at this time. Given these facts, after months of work the SPP stakeholder process has approved the use of a rate for through-and-out transmission service which is the average of all the zonal rates under Schedule 11. By limiting the rate change to Schedule 11 only, impacts on point-to-point customers are mitigated and the

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<sup>8</sup> See *Sw. Power Pool, Inc.*, 141 FERC ¶ 61,149 (2012).

comparability issues between external and internal customers are mitigated in a just and reasonable manner.

**B. THE SPP STAKEHOLDER PROCESS FULLY VETTED THE CHANGES TO SCHEDULE 11.**

Contrary to any implication to the otherwise in the Protests, the proposed changes included in the August 27 Filing were thoroughly and properly vetted through the SPP stakeholder process in accordance with SPP's Bylaws. As stated previously, key purposes for the August 27 Filing were to deal with a rate issue which impacted multiple transmission pricing zones and to mitigate disparity between the rates paid by internal and external customers. SPP stakeholders considered multiple alternatives, with the intent to remedy the rate inequities between internal SPP customers and external customers while also striving for minimal impact on customers.

In January 2012, SPP's Regional Tariff Working Group ("RTWG") originally presented proposed tariff revisions to the Markets and Operations Policy Committee ("MOPC") recommending that the average of the interconnected Zones' Schedule 7 or 8 plus a regional average Schedule 11 zonal rate be used, with a three-year phase in of the Schedule 7 and 8 portion. MOPC remanded the Tariff revision back to the RTWG to investigate whether other options would result in less impact on through-and-out customers.

The RTWG sent the issue back to the Billing Determinants Task Force ("BDTF") for review. The BDTF had multiple conference calls reviewing the various options and the costs related to each with over 25 participants per call. The BDTF also reviewed various mitigation measures that could be used. During the discussion, the BDTF also considered the fact that the Schedule 11 zonal rates will be affected by the

implementation of the reallocation of revenue requirements from Schedule 11 zonal to Schedule 11 regional for Balanced Portfolio projects.

The issue was revisited by the MOPC at the April 10-11, 2012 meeting<sup>9</sup> and the MOPC supported the recommendation that only the Schedule 11 zonal component of through-and-out rates be based on the regional average.<sup>10</sup> In accordance with this MOPC decision, the RTWG developed and approved the Tariff modifications presented in this docket at the RTWG's meeting in June 2012.<sup>11</sup> The MOPC accepted the RTWG's Tariff modifications, which affected only the Schedule 11 average rate for through-and-out transmission, at the July 2012 MOPC meeting.<sup>12</sup> Pursuant to the SPP Bylaws, SPP's Board of Directors approved the Tariff change for filing thereafter.<sup>13</sup>

The Independence Protest requests grandfathering of already existing long-term transmission service so that the modified Schedule 11 rate structure will not apply to previously confirmed through-and-out transactions. Independence states "the

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<sup>9</sup> The presentation may be viewed by linking to <http://www.spp.org/section.asp?group=321&pageID=27> and selecting MOPC Supplemental Background Material April 10-11, 2012 and opening the file identified as "#6a. RTWG MOPC presentation – Final - updated 20120405" starting at slide 30. Originally, the Tariff modifications at issue were identified as TRR056.

<sup>10</sup> See Summary of Action Items Taken line item #6 at <http://www.spp.org/publications/MOPC%20Minutes%20&%20Attachments%20April%2010-11,%202012%20Final%20Revised.pdf>.

<sup>11</sup> See link at <http://www.spp.org/publications/RTWG%20Meeting%20Minutes%206-27-12%20and%206-28-12%20Revised%207-10-12.pdf>. The Tariff modifications are identified as TRR069.

<sup>12</sup> See Summary of Action Items Taken at line item #5 at <http://www.spp.org/publications/MOPC%20Minutes%20&%20Attachments%20July%2017-18,%202012.pdf>. The motion passed nearly unanimously with three against and three abstentions, of which protester Independence was one.

<sup>13</sup> See Summary of Action Items at line item 3 at <http://www.spp.org/publications/BOD073112.pdf>.

Commission should recognize...SPP's long-standing pricing policy intended to encourage external entities to enter into transactions with SPP utilities."<sup>14</sup> SPP would clarify that the revisions proposed in the August 27 Filing do not affect internal transmission service. The modifications do not change the transmission rate for external customers who have contracted to deliver energy to load which is inside SPP's footprint.

To the extent an SPP member intends to utilize SPP's transmission facilities to deliver energy to non-SPP utilities outside the footprint ("out" or export service), such transmission service would be subject to the same rates, terms and conditions as a non-SPP member, which includes the average zonal rate. Further, whether to exclude pre-existing transmission service that sinks outside of SPP was an issue considered and discussed during the SPP stakeholder process.<sup>15</sup> Ultimately, Schedule 7 and 8 rates were not included in the August 27 Filing in order to mitigate the impacts on customers. With rate impacts mitigated in this manner, the MOPC elected not to propose a rate structure that included grandfathering provisions.

Despite its purported support of the Highway/Byway rate design, it is telling that Flat Ridge does not advocate an alternative rate design that would base the rate for through-and-out service under Schedule 11 on the *average* rate of the zones interconnected with the external POD. Rather, Flat Ridge continues to advocate the approach of using the least-cost interconnected zone rather than the average. During the SPP stakeholder discussions, the average rate of the zones interconnected with each external POD was one of the possibilities considered. It was not adopted for a number of

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<sup>14</sup> Independence Protest at 8.

<sup>15</sup> See *supra* n. 8 at slide 37.

reasons, among which was data indicating that this approach would result in a higher overall rate for through-and-out service than would the methodology that actually was approved by stakeholders. In effect, the rate benefit to through-and-out service that is advocated by Flat Ridge is primarily a result of the least-cost interconnected zone methodology rather than a result of application of Byway rates.

**C. FLAT RIDGE IS INCORRECT IN ITS ALLEGATIONS THAT THE BALANCED PORTFOLIO WAS NOT A FACTOR IN THE STAKEHOLDER PROCESS.**

The Flat Ridge contention that SPP is attempting to “bootstrap” the proposed revisions in the August 27 Filing to the Balanced Portfolio methodology is not supported by the record and should therefore be rejected.

In the Deficiency Response, SPP states that Schedule 11 Point-to-Point Transmission rates will be impacted significantly due to the fact that Balanced Portfolio reallocations are taken first from Schedule 11 zonal revenue requirements.<sup>16</sup> It is unclear from the Flat Ridge Protest whether Flat Ridge understands the Balanced Portfolio methodology or the fact that the methodology has been approved by the Commission. As the Commission has approved the Balanced Portfolio and the issue is not currently subject to rehearing or clarification, SPP will not argue the merits of the Balanced Portfolio with Flat Ridge.

However, Flat Ridge’s assertion that “SPP states that it credits export and through-and-out revenues to reduce the Region-wide Charge and claims that the intent of this credit is to ensure a benefit-cost ratio of 1.0...” requires clarification.<sup>17</sup> Flat Ridge

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<sup>16</sup> See Deficiency Response at 7.

<sup>17</sup> Flat Ridge Protest at 7.



also states that SPP is suggesting that SPP needs to increase revenue from through-and-out transactions in order to achieve the goals of Balanced Portfolios and that SPP is arguing that the Balanced Portfolio focuses on internal loads only and the rate should be relatively neutral as applied to external loads.<sup>18</sup>

First, Flat Ridge is incorrect because the effect of revenue crediting is not relevant to the Balanced Portfolio rationale for SPP's rate proposal. This misstatement by Flat Ridge serves to confuse the issue. Second, the Balanced Portfolio framework is not intended to result in reallocations that are unsupported by benefit-cost analysis. In fact, in accordance with Attachment O of the SPP Tariff, only the increase in transmission cost in a pricing zone compared to the change in adjusted production costs is used to determine the cost/benefit ratio. Any transfers to bring the cost/benefit ratio to 1.0 also uses only these factors by moving zonal revenue requirements to the Schedule 11 regional charge, thus reducing the overall transmission cost. In effect external load was not included in the Balanced Portfolio benefit-cost analysis pursuant to the Tariff, so the Balanced Portfolio should have a reasonably neutral impact on the costs borne by external load. "Neutral" as used by SPP is intended to mean that fairness dictates that external customers should not be put in a position to benefit from Balanced Portfolio reallocations through a reduction in Schedule 11 zonal rates when the external loads were not used as a factor in the determination of reallocations under the methodology.

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

For example, due to the initial reallocations on October 1, 2012 pursuant to the Commission's order,<sup>19</sup> four (4) SPP zones have had their Schedule 11 rates reduced to zero in the first year alone.<sup>20</sup> It is not just or reasonable to allow external customers to receive the benefit of a zero rate due to the Balanced Portfolio reallocations, when the costs and benefits to those loads were not used in the calculation of the transfers. Indeed, such a course of action is discriminatory in favor of external customers at the expense of internal customers for which the transmission system and the Highway/Byway and Balanced Portfolio methodologies were developed by SPP and approved by the Commission.

Flat Ridge's allegation that SPP did not address these Balanced Portfolio issues in the stakeholder process is wrong. As previously provided in the Section II.B of this Answer, the issues surrounding the Balanced Portfolio reallocations impact on Schedule 11 rates were discussed in the stakeholder process, from the Billing Determinants Task Force all the way through the presentation to the MOPC.<sup>21</sup> It was determined that the Tariff modifications in this docket would mitigate those issues.

**D. FLAT RIDGE'S PROPOSED REVISIONS SHOULD BE REJECTED.**

In its Protest, Flat Ridge suggests revisions to the August 27 Filing to deal with the "anomaly" of the zero rate for the Southwestern Power Administration ("SPA").

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<sup>19</sup> See *supra* n. 7.

<sup>20</sup> The four (4) SPP zones with a Schedule 11 rate reduced to zero are City Utilities of Springfield, Missouri, The Empire District Electric Company, KCP&L Greater Missouri Operations Company and Lincoln Electric System. SPP anticipates more zones may have Schedule 11 rates impacted by future Balanced Portfolio transfers.

<sup>21</sup> See *supra* n. 8 at slide 33.

Under Flat Ridge's proposal, Schedule 11's least-cost interconnected zone application would be modified to insert the phrase "positive." The intent is for the rate for through-and-out transmission service to be determined by using the least-cost interconnected zone which is positive. This approach should be rejected by the Commission. First, Flat Ridge suggests that the Commission should order SPP to make these revisions to Schedule 11 outside the SPP stakeholder process; and second, Flat Ridge's proposed revisions will not adequately address the issue.

The SPP stakeholder process has been approved by the Commission and has been shown (with Commission oversight) to be extremely effective to ensure just and reasonable terms of transmission service. Pursuant to SPP's Bylaws, proposed revisions to the Tariff follow a common process for approval for submission to the Commission for acceptance. Flat Ridge would ask the Commission to bypass this process. The revisions in the August 27 Filing contains the method which SPP stakeholders have formulated and approved to deal with the inequities inherent under the current rate structure for through-and-out transmission service. Therefore, the Commission should reject Flat Ridge's proposal as contrary to the Commission's precedent to allow the Regional Transmission Organization structure to develop resolutions to transmission issues under the Commission approved Tariff, and outside the Commission approved SPP process.

Additionally, Flat Ridge's proposal will not adequately address the issues. Because multiple zones have rates reduced through the Balanced Portfolio process, the "positive" value still could be a *de minimis* amount which will not sufficiently mitigate the inequity. Flat Ridge's proposed changes also ignore through-and-out transmission service which only touches one SPP zone. If that one SPP zone has a zero rate, then there

is no positive rate for SPP to use to settle the external customers' transmission service. Contrary to Flat Ridge's suggestion, its proposed revision is not sufficient to satisfy the issues which the August 27 Filing mitigates. Therefore, the Commission should reject Flat Ridge's proposal.

### **III. CONCLUSION**

Wherefore, SPP requests that the Commission grant its motion for leave to answer the Protests; deny the Protests; and accept the August 27 Filing.

Respectfully submitted,

/s/ Matthew S. Harward

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January 10, 2013

## **CERTIFICATE OF SERVICE**

I hereby certify that I have served this day copies of the foregoing on the official service list compiled by the Office of the Secretary in accordance with Rule 2010 of the Commission Rules of Practice and Procedure.

Dated at Little Rock this 10<sup>th</sup> day of January, 2013.

/s/ Matthew S. Harward

Matthew Harward

Attorney for  
Southwest Power Pool, Inc.