

Southwest Power Pool
STRATEGIC PLANNING COMMITTEE
Report to the Board of Directors
April 27, 2004

Background

On February 10, the Federal Energy Regulatory Commission (the "Commission") issued an order in the SPP RTO filing docket (RT04-1) conditionally approving SPP as an RTO. During the March 16 Board of Directors meeting, SPP Committees, Working Groups and Staff were directed to accomplish several initiatives in order to comply with the conditions in the order, including support to "augment the efforts of Member companies to perform timely cost-benefit analysis for their respective regulatory bodies".

The Strategic Planning Committee formed a Cost-Benefit Task Force (CBTF) comprised of the following:

- SPC Members: Richard Spring, Michael Desselle, Ricky Bittle, Mel Perkins
- Other Members and/or Member technical experts: Robin Kittel, Shah Hossain
- RSC Representatives: Sam Loudenslager, John Cita, Kelli Leaf, Ken Zimmerman
- SPP Staff: Jeff Price

The Cost-Benefit Task Force is responsible for developing the specific scope of the undertaking, the independent consultant(s) to oversee the study, a contract for those services, and the development and completion of the study (Scope - Attachment 1).

Analysis

The SPC, with RSC involvement and Staff assistance have reviewed options presented by the CBTF for an approach including methodology, duration and expense associated with such a cost-benefit study. This initial review concluded that a coordinated study would be preferred in lieu of each jurisdictional Member proceeding independently. The SPC also supports the sharing of the cost of this effort by all SPP Members. The study will review the cost and benefits of all Members' participation in SPP and the Imbalance Energy Market. A Request for Proposal has been developed for distribution to potential vendors (Draft RFP- Attachment 2).

Recommendation

The SPC recommends that the approach described here be approved for pursuit of a cost-benefit study, including authorization for this project as an unbudgeted item for FY2004. The SPC will present an exact expenditure request and a methodology for inclusion of the RSC for approval following receipt of proposals and selection of a vendor.

Approved: Strategic Planning Committee April 23, 2004

Action Requested: Approve the recommendation

Southwest Power Pool
Cost-Benefit Task Force - Scope Statement
April 13, 2004

Purpose

The purpose of the Cost-Benefit Task Force (CBTF) will be to augment the efforts of Member companies to perform timely cost-benefit analysis for their respective regulatory bodies. The CBTF will recommend, provide assistance to, and coordinate with an independent third party consultant in development of a cost – benefit analysis that will attempt to consider all costs and benefits of SPP's transition to an RTO including the implementation of an imbalance market. The analysis shall estimate the economic effects on a company by company, area by area, and/or state by state basis as needed.

Scope of Activities

In carrying out its purpose, the CBTF will:

- Meet to review a list of consultants who could coordinate the study and outline the general scope of the study for the cost benefit analysis with SPP staff assistance.
- Develop a vendor selection process and create a statement of tasks to be performed by the Consultant.
- Coordinate the timeline for the study(s) and the schedule of deliverables.
- Develop selection criteria, evaluation of proposals, and final recommendation on the choice of a Consultant.
- Develop cost and benefit categories to be examined and quantified by the selected Consultant.
- Meet with the selected Consultant to discuss the appropriate analysis process and assumptions to use in study.
- Act as liaison between the Consultant and SPP membership and other concerned parties to respond to questions regarding market design options for consideration in performing study.
- Act as liaison to the Consultant to respond to questions regarding analysis of regional and specific company impact evaluations for consideration in performing study.
- Review and comment on draft report from Consultant.
- Review and comment on Final report for Consultant's presentation.

Representation

The CBTF will be comprised of no more than fifteen total members representing segments of SPP's membership and the Regional State Committee.

Duration

The CBTF will meet as necessary until the Cost-Benefit Study is finalized and filed with the appropriate regulatory agencies and commissions.

Reporting

The CBTF will report to the Strategic Planning Committee for all activities and guidance.



Request for Proposal *draft*

For the Purpose of Conducting a Cost/Benefit study of SPP's
evolution into a Regional Transmission Organization

Request for Proposal

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Section I - Background

Information to Bidders

Purpose

The purpose of this Request For Proposal (RFP) is to invite proposals from identified firms, consultants, and electric industry researchers for services required by the Southwest Power Pool Inc. (SPP) in order to conduct a cost/benefit study of SPP's evolution into a Regional Transmission Organization (RTO).

The SPP will consider proposals that encompass either part of the study or the entire study as detailed below. SPP requests that the Bidder should provide as much information as possible in response to each qualification specified in this RFP. The Bidder must identify any specific requirements with which it is unwilling or unable to provide.

Schedule

<u>Task</u>	<u>Start Date</u>	<u>Duration</u>
Cost Benefit Task Force Kick-off Meeting	4/13/04	
Develop Scope & RFP, select potential vendors, send out RFP	4/15/04	½ month
Vendor Selection; vendor interview, contract negotiations, finalize "scope of work", execution of the contract	5/1/04	½ month
Develop Assumptions	5/15/04	1 month
Conduct Analysis and draft report	6/15/04	3 months
Review Results	9/15/04	½ month
Final Report Released	9/30/04	

General Information

The responses will be evaluated according to, but not restricted to, the following criteria:

- The Bidder's past experience with Cost/Benefit analyses;
- Previous experience with RTO Cost/Benefit studies;
- The Bidder's demonstration of its capabilities to provide the services required given the broad areas of technical expertise and periodic reporting related to the performance of the cost/benefit study. Areas of expertise include, but are not limited to technical knowledge of energy markets, transmission systems, written and public communication skills, data gathering expertise, historical relationships with regulatory agencies, development of economic models;
- Previous experience with and/or demonstration of technical knowledge of the state of the transmission system, energy markets, and regulatory environment in the Midwestern/Southern United States and in the SPP region.
- The Bidder's overall responsiveness and consistency in meeting the requirements as specified in Section III;
- Demonstration by the Bidder of an ongoing business capability, e.g. financial statements, etc.;
- The Bidder's organizational and technical capabilities to provide services
- The Bidder's ability to meet the designated timelines and the reporting dates agreed upon with SPP;
- The Bidder's ability to present the results of the Cost/Benefit study in State Regulatory Proceeding(s);
- The compliance of the Bidder's response to the specification(s);
- The final report and all supporting work products, including but not limited to documents, data, and other information used by the Bidder(s) to support the final report, will become the property of SPP. The Bidder should be prepared to provide the supporting work products in an organized format suitable to SPP.

Requests for clarification, and responses, on the RFP shall be in writing and forwarded to jwprice@spp.org according to the timeline above. Responses to written requests will be distributed in writing to all known recipients of the RFP without identifying the source of the question.

SPP reserves the right to reject any or all Bidder proposals after evaluation.

Section II - Overview

Overview

Regulatory Overview

On October 15, 2003, SPP filed with the Federal Energy Regulatory Commission (Commission) seeking recognition as a Regional Transmission Organization under FERC Order No. 2000. By order issued on February 10, 2004, the Commission accepted SPP's proposal for recognition as an RTO subject to conditions and compliance filing requirements. SPP is committed to meeting the conditions set out by FERC in the order.

SPP's corporate offices are located in Little Rock, Arkansas. It began operation in 1941, when 11 companies voluntarily came together to serve the needs of national defense. In June 1968, SPP became one of the original regional reliability councils of the North American Electric Reliability Council (NERC). In 1997 SPP began operation as a regional security coordinator, and in 2000 SPP started to provide transmission services under a regional Open Access Transmission Tariff (SPP Tariff). SPP has 48 members and serves over 4 million customers in a 400,000 square mile area that encompasses 17 control areas. The region includes all or portions of the following states: Arkansas, Kansas, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, and Texas.

SPP's membership includes investor owned vertically integrated utilities, independent and/or alternative power producers, power marketers, electric cooperatives, municipal utilities, federal power agencies, and state power authorities. The investor owned vertically integrated utilities are regulated by FERC and their respective State Regulatory Commission(s). A number of State Commissions having jurisdiction over SPP members require regulatory approval to participate in an RTO.

Study Overview

The basic framework of the Study will be a two-phase analysis with Bidder's having the option of submitting a proposal on one or both phases. The first phase will incorporate the services that SPP currently performs for its members, while the second phase will analyze the benefits and costs of SPP's implementation of an Energy Imbalance market. The two-phase approach is discussed in more detail below. The possibility also exists for a Bidder to take on the responsibility of being the lead editor if more than one consultant is used for the study and report.

The two-phase analysis will consist of two distinct analyses and methodologies. First, the study should identify the benefits and costs to the State-regulated vertically integrated utilities of maintaining their transmission-owner membership in SPP; therefore these vertically integrated utilities effectively becoming RTO participants. These benefits and costs would include those that accrue from consolidated services and functions such as reliability coordination and regional tariff administration, among others. This part of the study should be accomplished through the development of revenue requirements for each SPP member as adjusted for known and measurable changes from the various scenarios to be analyzed to project results of future operations. The second phase of the study should be an analysis based on a market simulation model of SPP's anticipated Phase I market implementation (Energy Imbalance Market).

By using both of these study approaches, potential incremental benefits and costs will be identified, described and quantified. It is expected that individual companies and/or state regulatory authorities will use the results from the Study to assist with the performance of their own evaluations or assessments, which may be required to meet the provisions of respective state laws and regulations.

The Study and its assumptions must be defensible in a number of forums that are likely to follow the completion of the Study over an extended period of time.

This study may form the basis for cost/benefit studies associated with implementing other phases of SPP market(s) that may be considered in the future.

SPP Services

SPP services include tariff administration, regional security coordination, regional transmission modeling and reliability assessment, and management of the Operating Reserve Sharing Pool.¹ The SPP tariff offers customers "one stop shopping" for transmission service across the region. SPP will process transmission requests, determine available transfer capability, and will schedule submitted transactions.

The SPP tariff effective February 1, 2000, allows SPP to administer regional network transmission service, firm and non-firm point-to-point transmission service, and coordinate the procurement of ancillary services as specified in Order 888. SPP collects Transmission Tariff revenues and distributes them to members in accordance with the Membership Agreement.

SPP coordinates generation and transmission maintenance and is responsible for the reliable operation of the transmission grid. It also coordinates emergency response. Members are required to follow SPP procedures under emergency conditions unless such directives would cause potential human injury. The RTO would be responsible for grid planning; member transmission owners would be responsible for construction. Members will be compensated for construction to fullest extent permitted by FERC or other jurisdictional body.

¹ SPP Reserve Sharing Group Participants include entities outside the SPP footprint.

The Formation of the Cost Benefit Task Force

When SPP becomes an RTO, some SPP vertically integrated utility members will be required to seek approval of their respective State Regulatory Commission(s) to transfer control of their transmission facilities to SPP, and to participate in the RTO. Several State Regulatory Commissions will require proof of benefit for a change in operational control, and to participate in the RTO and/or the Energy Imbalance Market.

On April 6, 2004, the SPP Strategic Planning Committee decided that SPP should coordinate a collective aggregate study rather than members provide individual studies. Because of the use of a collective approach, the Cost Benefit Task Force was formed for the selection of a vendor(s) and to provide additional scope and guidance to this process.

SPP Members

A list of SPP members can be found at http://www.spp.org/About_Members.htm. In addition to members, SPP also has many other participants that are Transmission Customers but are not members of SPP.

SPP Governing Documents

The following documents define the responsibilities of SPP members and provide direction for SPP policymaking. If not attached to this document, they can be found at the SPP website at www.spp.org or at www.ferc.gov

- SPP Articles of Incorporation
- SPP Bylaws
- SPP Standards of Conduct
- Tariff
- Membership Agreements
- Network Operating Agreements
- FERC Order 2000
- Order 888

The Board of Directors, Strategic Planning Committee and Cost Benefit Task Force minutes may also be obtained at the SPP website.

SPP' Cost Benefit Task Force's, and Other Members' Role During the Study Period

SPP Members and staff, and the State Regulatory Commissions staff members, expect to play a relatively active role in helping to formulate reasonable base and alternative cases, and in helping to develop key input assumptions. The Cost/Benefit Task Force (CBTF), which is comprised of State Regulatory Commission representatives and member representatives, will assist on an ad-hoc basis in providing the necessary input information and assumptions (e.g., anticipated reliability and economic transmission expansion projects, revenue requirements analysis, etc), and will answer questions and provide data on current operations upon request. SPP staff will also provide similar assistance upon request. Bidders should include in their responses a discussion of the contemplated relationship between their study team and the SPP Staff and the CBTF.

Section III – Cost/Benefit Study Requirements

Scope of Work

General Parameters

The general parameters of the Cost/Benefit Study are discussed below.

- Geographic Scope - Southwest Power Pool's portion of the Eastern Interconnect that is subject to the SPP Tariff
- Quantify the known and measurable benefits and costs realized by Vertically Integrated Utility members of Southwest Power Pool from consolidated services and functions such as reliability coordination and regional tariff administration, among others. Results reported will include Operating Company totals, State jurisdictional totals, and Operating Company subtotals by state jurisdictions.
- Quantify, where possible, the costs and benefits realized by SPP state jurisdictional members that may participate in the SPP administered energy imbalance market. In addition to the state jurisdictional members, SPP will require an evaluation of the costs and benefits for a "typical" member(s). Results reported will include Operating Company totals, State jurisdictional totals, and Operating Company subtotals by state jurisdictions. The analysis will also reflect the results for a "typical" member(s).
- Conduct a full qualitative analysis of those benefits and costs that cannot be reasonably quantified.
- Identify any additional "benefit/costs" which cannot be reasonably quantified or qualitatively analyzed.
- The study period will be each year for five years beginning in 2005 and ending in 2009.
- It is anticipated that scenarios should have the same level of reliability as a base case analysis. If this cannot be accomplished, reliability differences should be quantified.

Benefits and Costs

The general parameters of the Cost/Benefit Study are discussed below.

- Benefit/Cost of the existence of regional open transmission access
- A single SPP-wide OASIS and administration of transmission requests
- Benefit/Cost of all transmission access under the SPP "non-rate terms and conditions"

- Reduction or elimination of rate pancaking within SPP region and the impacts resulting from regional seams agreements
- RTO initial capital investment and ongoing operational expenses
- Regional management of parallel path flows
- Regional coordination/planning of transmission and generation investment
- Settlement of intra-SPP inadvertent on the same basis as imbalance
- Impact on the ability of Companies to exercise market power in an SPP administered imbalance market
- Impact of an SPP Market Monitoring function (including an Independent Market Monitor) to guard against and respond to market power problems
- Impact of SPP administered operating reserve sharing program
- Combining the transmission operations of individual entities into a single grid operator that provides open transmission access throughout the SPP region
- More efficient utilization of existing transmission plant
- More efficient generation and commitment and dispatch
- Potential efficiencies in dispatching the Energy Imbalance market to achieve reduction in frequency and magnitude of Transmission Loading Relief (TLR) events.
- Impact on system reliability
- Other costs or benefits that may be identified

Proposal Requirements

The requirements that should be addressed in the proposal are listed below.

- Previous experience with conducting cost benefit analysis; specific experience with conducting RTO Cost/Benefit analysis is preferred;
- Previous experience with energy markets, transmission systems, and electricity market modeling;
- Previous experience and demonstration of technical knowledge of the state of the transmission system and regulatory environment of the SPP region, and the energy markets in Midwestern and Southern energy markets;
- Project management capability;
- Qualification and commitment of key resources for the study;
- Description of available models and other analytical tools that can and will be used in conducting the study;
- 3rd party resources, includes those of SPP and SPP-members, that may be used;

- Clearly articulated assumption and theories;
- Critical path items;
- Critical information to be provided by SPP and/or its members;
- Description of Study structure;
- Electronic availability of previous similar studies with project schedules;
- A cost estimate for performing the Cost Benefit Study. If the Bidder submits a proposal for both phases, a separate cost estimate for each phase should be provided;
- References.

Reports and Reporting Requirements

The reporting requirements are discussed in detail below.

- SPP will designate a staff contact responsible for coordinating work performed by the selected consultant(s) and interaction with SPP Cost Benefit Study Task Force.
- The selected consultant(s) will be responsive to the requests and questions from the Cost Benefit Study Task Force
- All reports developed by the selected consultant(s) in fulfilling the requirements of this project will be made publicly available.
- The staff contact will facilitate the development and appropriate distribution of monthly cost reports
- The staff contact will provide the liaison function between SPP and its members with the consultant(s)
- The selected consultant(s) will report any preliminary findings
- The selected consultant(s) will submit both a Draft and Final Report to the Cost Benefit Task Force.
- The consultant(s) will be required to support its report and findings to SPP committees, work groups and/or task forces, if requested.
- The consultant(s) will be expected to support its findings before state regulatory authorities to meet the provisions of the respective state laws and regulations. This would be performed under separate contract(s) between the regulated member companies and the consultant and should not be included in the response to this request for proposals.

Disclosure of Interest

All Bidders shall make full disclosure in writing at the time of the proposal of any business relationships with SPP personnel or business relationships with any SPP participants or their personnel, including but not limited to the following:

- Ownership of shares or interests of the bidder by any SPP personnel, SPP market participant or personnel of any SPP market participant.
- Detail of any directorships in the bidding entity or employment by the bidding entity of any SPP personnel or personnel of any SPP market participant.
- Contractual relationships with SPP, SPP employees or any stakeholder in the SPP RTO market.

By submission of a proposal, the bidder certifies (and in the case of a joint proposal, each party certifies) that:

- No relationship exists or will exist during the contract period between the Bidder and SPP or SPP market participant that interferes with fair competition or is a conflict of interest.

If a Bidder fails to disclose an interest, SPP reserves the right to terminate or cancel a contract, into which SPP may have been entered with a Bidder.