March 5, 2018

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: *Southwest Power Pool, Inc.*, Docket No. ER12-1179-___
Submission of Response to Request for Additional Information

Dear Secretary Bose:

Southwest Power Pool, Inc. ("SPP") hereby responds to the letter requesting additional information that the Federal Energy Regulatory Commission's Office of Energy Market Regulation ("OEMR") issued on February 2, 2018, in the above-captioned docket (the "February 2 Letter").[1] In the February 2 Letter, which concerns SPP's compliance filing submitted on May 24, 2016 in Docket No. ER12-1179-024,[2] the OEMR staff requests information regarding any load-reduction demand response activity that has occurred in SPP's Integrated Marketplace since SPP's May 2016 Filing and inquires whether certain aspects of SPP's net benefits test, which was originally approved for SPP's real-time Energy Imbalance Service ("EIS") Market pursuant to Order No. 745,[3] remain appropriate in the context of the Integrated Marketplace's day-2 structure.[4]

As discussed in more detail in this response, SPP has not experienced load-reduction demand response activity in the Integrated Marketplace since the May 2016

1 *Sw. Power Pool, Inc.*, Deficiency Letter, Docket No. ER12-1179-024 (February 2, 2018).

2 Compliance Filing of Southwest Power Pool, Inc., Docket No. ER12-1179-024 (May 24, 2016) ("May 2016 Filing").

3 *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, 2008–2013 FERC Stats. & Regs., Regs. Preambles ¶ 31,322, *order on reh'g & clarification*, Order No. 745-A, 137 FERC ¶ 61,215 (2011), *reh'g denied*, Order No. 745-B, 138 FERC ¶ 61,148 (2012), *vacated*, *Elec. Power Supply Ass'n v. FERC*, 753 F.3d 216 (D.C. Cir. 2014), *rev'd & remanded*, 136 S. Ct. 760 (2016).

4 As used herein, the term "Tariff" will refer to the Southwest Power Pool, Inc., Open Access Transmission Tariff, Sixth Revised Volume No. 1.

Filing and thus has insufficient evidence on which to base a meaningful response to the OEMR staff's questions on issues such as cost allocation and measurement/verification mechanisms. With respect to questions regarding SPP's net benefits test design, SPP believes it would be appropriate to adopt the modifications the Commission previously has suggested in light of the design differences between the EIS Market and the Integrated Marketplace.

I. BACKGROUND

Order No. 745 required Regional Transmission Organizations ("RTOs") to pay demand response resources the locational marginal price ("LMP") for energy when (1) the demand response resource has the capability to balance supply and demand as an alternative to a generation resource and (2) dispatch of the demand response resource is cost-effective as determined by a net benefits test described in Order No. 745.[5] SPP's compliance with Order No. 745's net benefits test and cost allocation requirements for the EIS Market was accepted by the Commission in a letter order issued on December 20, 2013.[6]

While its Order No. 745 compliance was pending, SPP submitted to the Commission proposed revisions to its Tariff to transition from its Real-Time EIS Market to the SPP Integrated Marketplace, which includes Day-Ahead and Real-Time Energy and Operating Reserve Markets, a Transmission Congestion Rights market, a consolidated SPP Balancing Authority Area, and a market power monitoring and mitigation plan based on conduct and impact thresholds. In an October 2012 order addressing SPP's Integrated Marketplace proposal, the Commission directed SPP to incorporate into its Integrated Marketplace Tariff any provisions that would be appropriate in light of the requirements of Order No. 745.[7] In a compliance filing dated January 22, 2014, SPP proposed cost allocation and net benefits test methodologies similar to those accepted by the Commission for use in its EIS Market.[8] For the net benefits test, SPP proposed to use the same net benefits test SPP

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5 Order No. 745 at PP 2, 47-48. Order No. 745 identified characteristics for the net benefits test, which determines the point at which compensating a demand response resource at the market price is cost-effective. The order defined this point as the market price level at which dispatch of the demand response resource lowers LMP sufficiently to offset the additional cost to load of compensating the resource at full market price. *Id*. at PP 3-4, 79-80.

6 *Sw. Power Pool, Inc.*, Letter Order, Docket No. ER11-4105-001 (Dec. 20, 2013).

7 *Sw. Power Pool, Inc.*, 141 FERC ¶ 61,048, at P 2 (2012), *order on reh'g and clarification*, 142 FERC ¶ 61,205 (2013), *appeal dismissed sub nom. Neb. Pub. Power Dist. v. FERC*, No. 13-1181, 2014 U.S. App. LEXIS 10064 (D.C. Cir. Apr. 15, 2014).

8 Submission of Tariff Revisions to Implement Order No. 745 in the SPP Integrated Marketplace of Southwest Power Pool, Inc., Docket No. ER12-1179-016 (January 22, 2014) ("January 2014 Filing"). For the Integrated Marketplace, SPP proposed a cost allocation methodology that would continue to allocate costs associated with load-reduction demand

had adopted for the EIS Market. SPP anticipated however, that the methodology would have to be adjusted once SPP had access to a full year of Integrated Marketplace data and proposed the use of the EIS Market methodology as a transitional measure. SPP commenced operation of the Integrated Marketplace on March 1, 2014.

In an order dated April 1, 2014,[9] the Commission conditionally accepted SPP's proposed Order No. 745 methodologies for the Integrated Marketplace, subject to a compliance filing in which SPP would recommend any adjustments it found necessary after obtaining experience with these methodologies in the Integrated Marketplace.[10] Two years later, SPP submitted the May 2016 Filing, advising the Commission that, because of a lack of data regarding load-reduction demand response activity in the Integrated Marketplace,[11] SPP had not had the opportunity to evaluate the need for any specific adjustments to its cost allocation methodology[12] or its net benefits test design.

II. FEBRUARY 2 LETTER

The February 2 Letter states that additional information is necessary to process SPP's May 2016 Filing. The February 2 Letter contains two questions, each with subparts. The first question is conditioned on whether any load-reduction demand response has occurred in SPP since the May 2016 Filing. The second question relates to the appropriateness of certain aspects of SPP's net benefits test design as applied to the Integrated Marketplace.

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response on a regional basis. However, the new methodology, based on hourly charge types specific to load-reduction demand response, allocates cost based on the degree of benefit entities receive from the resulting LMP.

9 *Sw. Power Pool, Inc.*, 147 FERC ¶ 61,001 (2014) ("April 2014 Order").

10 April 2014 Order at PP 18-19.

11 As stated in the May 2016 Filing, SPP had previously proposed terminology changes to Tariff provisions regarding its net benefits test to reflect transition from EIS Market data to Integrated Marketplace data. The Commission accepted the revisions in an order dated October 8, 2015. *See Sw. Power Pool, Inc.*, Letter Order, Docket No. ER15-2452-000 (October 8, 2015).

12 As discussed in SPP's January 2014 Filing, this methodology was designed to allocate costs associated with dispatch of demand response resources on a region-wide basis, and the costs are to be allocated proportionally based on the benefit entities receive from a lower LMP. For SPP's cost allocation methodology in the Integrated Marketplace, the Commission approved, *inter alia*, four demand reduction charge types. They include Day-Ahead Demand Reduction Amount (Attachment AE, section 8.5.24), Day-Ahead Demand Reduction Distribution Amount (Attachment AE, section 8.5.25), Real-Time Demand Reduction Amount (Attachment AE, section 8.6.21), and Real-Time Demand Reduction Distribution Amount (Attachment AE, 8.6.22).

A. No Load-Reduction Demand Response Activity Has Occurred in SPP's Integrated Marketplace Since the May 2016 Filing.

Question (1) seeks information SPP may have observed on subjects including cost allocation and measurement/verification mechanisms in the context of any load-reduction demand response activity that has occurred since the May 2016 Filing.[13] SPP has not experienced any load-reduction demand response activity in the Integrated Marketplace since the May 2016 Filing and is thus is unable to provide details about the nature of such activity in response to Question (1). However, in the absence of such data and consistent with relevant statements in SPP's May 2016 Filing, SPP has not observed a technical need for adjustments to the cost allocation methodology or the measurement/verification mechanisms.

B. Certain Adjustments to the Net Benefits Design Appear Appropriate Based on Design Differences Between the EIS Market and the Integrated Marketplace.

In Question (2), the Commission asks whether two aspects of SPP's net benefits test design, which SPP originally proposed for its EIS Market, are appropriate in the context of the Integrated Marketplace's day-2 design. Specifically, Question (2)(a) asks whether it is appropriate to exclude the price information from non-peak hours when constructing supply curves to determine the cost-effective threshold. Question (2)(b) asks whether it would be more appropriate to average price curves together and then smooth the average curve instead of SPP's current practice of smoothing individual hourly supply curves. As with the issues raised in Question (1), SPP does not have sufficient evidence in the form of load-reduction demand response activity on which to base a specific evaluation of the net benefit test's performance in the context of the Integrated Marketplace. However, SPP agrees with the Commission that specific changes would be appropriate in light of Integrated Marketplace design features that provide a greater amount of supply information than was available in the EIS Market.

1. <u>Including non-peak price information in supply curves is appropriate based on the increased availability of supply data in the Integrated Marketplace.</u>

SPP's current approach to constructing supply curves uses offer data from the peak hour of each day. In the February 2 Letter, the Commission suggests that limiting supply curves to peak hours may not reflect available supply in a day-2 market context.[14] The current approach was based primarily on the principle that, in

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[13] *See* February 2 Letter at 1-2 ("*If* load-reduction demand response activity has occurred in the subsequent years of Integrated Marketplace operation, please respond to the following questions . . . .") (emphasis added).

[14] February 2 Letter at 3; *see also* April 2014 Order at P 18.

the EIS Market, the peak hour better represented the scope of available energy because the higher degree of demand in the peak hour resulted in a higher number of offers.[15] In the Integrated Marketplace, however, centralized unit commitment and the real-time balancing market's ("RTBM") must-offer requirement have resulted in additional offer data being available for all hours and all Resources. Accordingly, SPP believes that it would be appropriate to adjust the methodology to use all available offer data and include non-peak hour data in the construction of supply curves.

2. Smoothing an average curve is appropriate based on the availability of supply data in the Integrated Marketplace.

In Question (2)(b), the Commission suggests that SPP's current practice of smoothing supply curves individually instead of smoothing an averaged curve may be inappropriate in the context of the Integrated Marketplace's day-2 design.[16] As with the issue of using only peak-hour data, this design aspect was also based on the relative scarcity of representative offer data in the EIS Market.[17] The methodology for that market design smoothed individual offer curves (based on representative hours with good supply data), and then determined an average curve. As the Commission noted at the time, smoothing individual curves prior to averaging them together may affect the outcome of the net benefits test, particularly in an environment such as the Integrated Marketplace, where centralized unit commitment and the RTBM's must-offer requirement provides offer data for all hours and all Resources. Because of the increased availability of offer data in the Integrated Marketplace, SPP believes that it would be appropriate to first average the supply curves and then smooth the average curve, as suggested by the Commission.

III. CONCLUSION

To the extent the Commission so directs, SPP believes it would be appropriate to submit proposed Tariff revisions effecting the two design changes discussed in this filing.

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15 *See* Order No. 745 Compliance Filing—Response to Request for Information of Southwest Power Pool, Inc., Docket No. ER11-4105-001, at 6 (Jan. 18, 2013) ("January 2013 Filing") (explaining why the use of only peak hour data is appropriate, given the lack of sufficient offer data for non-peak periods in SPP's EIS Market).

16 February 2 Letter at 3; *see also* April 2014 Order at P 18.

17 *See* January 2013 Filing at 7 (explaining that smoothing each curve prior to averaging provides a more representative supply curve than averaging the curves first, given the lack of full potential supply data available in the EIS Market).

Respectfully submitted,

/s/ Joseph W. Ghormley
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Little Rock, Arkansas, this 5th day of March 2018.

/s/ Michelle Harris
Michelle Harris