

163 FERC ¶ 61,183  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Kevin J. McIntyre, Chairman;  
Cheryl A. LaFleur, Neil Chatterjee,  
Robert F. Powelson, and Richard Glick.

Southwest Power Pool, Inc.

Docket Nos. ER12-1179-024  
ER12-1179-025

ORDER CONDITIONALLY ACCEPTING COMPLIANCE FILING

(Issued June 5, 2018)

1. On May 24, 2016, Southwest Power Pool, Inc. (SPP) submitted a filing (May 2016 Compliance Filing) to address the compliance directives contained in the Commission's April 1, 2014 order conditionally accepting revisions to SPP's Open Access Transmission Tariff (Tariff) as part of its Order No. 745 compliance efforts.<sup>1</sup> In this order, we accept SPP's May 2016 Compliance Filing, subject to an additional compliance filing, to be effective on the date of the issuance of this order, as discussed below.

**I. Background**

**A. Order No. 745 and SPP's EIS Market**

2. In Order No. 745, the Commission required each Regional Transmission Organization (RTO) and Independent System Operator (ISO) to pay demand response resources the locational marginal price 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

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<sup>1</sup> *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, FERC Stats. & Regs. ¶ 31,322, *order on reh'g*, Order No. 745-A, 137 FERC ¶ 61,215 (2011), *reh'g denied*, Order No. 745-B, 138 FERC ¶ 61,148 (2012), *vacated sub nom. Elec. Power Supply Ass'n v. FERC*, 753 F.3d 216 (D.C. Cir. 2014) (*EPSA v. FERC*), *rev'd & remanded sub nom. FERC v. Elec. Power Supply Ass'n*, 136 S. Ct. 760 (2016).

determined by a net benefits test.<sup>2</sup> In order to implement the net benefits test, the Commission directed each RTO/ISO to develop a mechanism to estimate the price level at which dispatching demand response resources will be cost-effective (i.e., the cost-effectiveness threshold).<sup>3</sup> Additionally, the Commission determined that it was just and reasonable to allocate the costs associated with demand response compensation proportionally to all entities that purchase from the relevant energy market in the area(s) where the demand response reduces the market prices for energy at the time the demand response resource is committed or dispatched.<sup>4</sup> Finally, the Commission required each RTO/ISO to make an assessment of its demand response measurement and verification protocols and propose any modifications to those protocols that may be necessary to ensure adequate baseline measurement and verification of demand response performance.<sup>5</sup> At the time Order No. 745 was issued, SPP operated its real-time Energy Imbalance Services (EIS) Market. On July 22, 2011, in Docket No. ER11-4105-000, SPP submitted its initial Order No. 745 compliance filing applicable to its EIS Market. The Commission rejected this filing in a January 19, 2012 order<sup>6</sup> and required SPP to submit a further compliance filing, which SPP submitted on May 2, 2012.

### **B. Order No. 745 and SPP's Integrated Marketplace**

3. While Order No. 745 compliance proceedings for SPP's EIS Market were ongoing, on February 29, 2012, in Docket No. ER12-1179-000, SPP submitted proposed revisions to its Tariff to transition from its EIS Market to the Integrated Marketplace, which included, among other things, day-ahead and real-time energy and operating reserve markets, a transmission congestion rights market, and a consolidated SPP balancing authority area. In an order issued on October 18, 2012, the Commission directed that, within 30 days of the final order accepting SPP's Order No. 745 compliance provisions for its EIS Market, SPP was to submit a further filing to incorporate into its Tariff any provisions that would be appropriate for the Integrated Marketplace in light of

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<sup>2</sup> As detailed in Order No. 745, a net benefits test ensures that the overall benefit of the reduced locational marginal price that results from dispatching demand response resources exceeds the costs of dispatching and paying the locational marginal price to those resources.

<sup>3</sup> Order No. 745, FERC Stats. & Regs. ¶ 31,322 at PP 79-80.

<sup>4</sup> *Id.* P 102.

<sup>5</sup> *Id.* P 94.

<sup>6</sup> *Sw. Power Pool, Inc.*, 138 FERC ¶ 61,041 (2012).

the requirements of Order No. 745.<sup>7</sup> The Commission issued an order accepting SPP's Order No. 745 compliance provisions for its EIS Market on December 20, 2013.<sup>8</sup>

### 1. January 2014 Compliance Filing

4. On January 22, 2014, SPP submitted the compliance filing required by the Commission in the Integrated Marketplace Order. In its filing, SPP proposed net benefits and cost allocation methodologies for the Integrated Marketplace that were similar to those that the Commission accepted for use in SPP's EIS Market.<sup>9</sup> SPP's proposed net benefits test methodology used historical EIS Market offers for peak hours of each day, adjusted for fuel prices, and combined those offers to make an hourly supply curve for each daily peak hour in the period. SPP proposed smoothing each supply curve individually and computing the price elasticity of each individual, smoothed supply curve to find the threshold price where elasticity falls below one for the duration of the curve. Finally, SPP proposed determining the overall cost-effectiveness threshold price for the month, termed the Net Benefits Threshold, by averaging the threshold prices determined for the individual supply curves. SPP stated that, after accumulating Integrated Marketplace data, it would make any necessary adjustments to its net benefits test methodology and file any changes with the Commission, to be effective in March of 2015.<sup>10</sup>

5. SPP also proposed a cost allocation methodology that would allocate costs on a region-wide basis, as it had in the EIS Market, although it would no longer use revenue neutrality uplift as the cost allocation mechanism. Instead, SPP proposed a new cost allocation mechanism, based on hourly charge types specific to load-reduction demand response, that would regionally allocate costs on an hourly basis to load based on each asset owner's net energy withdrawals. SPP contended that, in this manner, the cost of demand response would be allocated based on the degree of benefit entities receive from the resulting locational marginal price. SPP reiterated its commitment to monitoring the effect of allocating the cost of demand response compensation regionally and asserted that it would propose any necessary changes after commencement of the Integrated

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<sup>7</sup> *Sw. Power Pool, Inc.*, 141 FERC ¶ 61,048, at P 62 (2012) (Integrated Marketplace Order).

<sup>8</sup> *Sw. Power Pool, Inc.*, Docket No. ER11-4105-001 (Dec. 20, 2013) (delegated letter order).

<sup>9</sup> Submission of Tariff Revisions to Implement Order No. 745 in the SPP Integrated Marketplace, Docket No. ER12-1179-016 (filed Jan. 22, 2014).

<sup>10</sup> *Id.* at 7.

Marketplace.<sup>11</sup> SPP commenced operation of the Integrated Marketplace on March 1, 2014.

## 2. April 2014 Order and Subsequent Compliance

6. On April 1, 2014, the Commission conditionally accepted SPP's proposed demand response methodologies for the Integrated Marketplace, subject to a further compliance filing due nine months after market start, in which SPP would: (1) reevaluate its net benefits test methodology using Integrated Marketplace data and propose any necessary changes to make its methodology compliant with Order No. 745, to be effective one year after market start (i.e., March 1, 2015); and (2) reevaluate the appropriateness of its system-wide demand response cost allocation mechanism and whether it would continue to be compliant with Order No. 745.<sup>12</sup> In addition, the Commission noted that SPP's demand response measurement and verification methodologies became effective at the start of the Integrated Marketplace. In the Integrated Marketplace Order, the Commission directed SPP to include, as part of its Integrated Marketplace informational report due 15 months after launch of the Integrated Marketplace, a discussion of the implementation of these methodologies.<sup>13</sup> In the April 2014 Order, the Commission required SPP to also include in its 15-month Integrated Marketplace informational report an explanation of how its methodologies continued to ensure appropriate baselines and that demand response performance continued to be adequately measured and verified consistent with Order No. 745.<sup>14</sup>

7. Regarding SPP's net benefits test methodology, the Commission explained that, once SPP had acquired Integrated Marketplace data that could be used in the determination of a cost-effectiveness threshold, the net benefits test methodology tailored to its EIS Market would likely no longer be necessary or appropriate. The Commission noted that, for example, limiting analysis to peak hours would no longer yield the sole representation of available supply in a day-2 market with day-ahead and real-time must-offer requirements. As such, selecting only peak hours for use in the net benefits test would result in the exclusion of daily supply curves that could be important in the

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<sup>11</sup> *Id.* at 10-11.

<sup>12</sup> *Sw. Power Pool, Inc.*, 147 FERC ¶ 61,001, at PP 18-19 (2014) (April 2014 Order).

<sup>13</sup> *See* Integrated Marketplace Order, 141 FERC ¶ 61,048 at P 50 n.58. The Commission noted that this report should utilize 12 months of market data following commencement of the Integrated Marketplace.

<sup>14</sup> April 2014 Order, 147 FERC ¶ 61,001 at P 21.

accurate determination of the cost-effectiveness threshold price. The Commission also noted that smoothing supply curves individually, prior to averaging them together, might affect the outcome of the net benefits test, and such an approach had not been supported by SPP in a context in which there were more complete supply curves available for every hour of the day.<sup>15</sup>

8. On May 23, 2014, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) vacated Order No. 745 in its entirety and remanded rulings under review.<sup>16</sup> In light of the D.C. Circuit's decision, on October 29, 2014, SPP requested an extension of time to submit the compliance filing required by the April 2014 Order until 120 days after the Commission acted on the court's remand. The Commission granted the request on November 21, 2014.<sup>17</sup>

9. On June 1, 2015 in Docket No. ER12-1179-000, SPP filed its 15-month informational report on the Integrated Marketplace and stated that there had been no cleared or reported output from demand response resources in the SPP Integrated Marketplace; therefore, SPP asserted, it had no operational experience with demand response resources to indicate that demand response measurement and verification provisions would not set appropriate baselines or adequately measure demand response.<sup>18</sup>

## **II. May 2016 Compliance Filing and Further Filings**

### **A. May 2016 Compliance Filing**

10. On May 24, 2016, SPP submitted, in Docket No. ER12-1179-024, a filing to comply with the Commission's directives in the April 2014 Order. SPP stated that it had performed a net benefits test on a monthly basis since the commencement of the Integrated Marketplace and had utilized data from the Integrated Marketplace for this test since it became available.<sup>19</sup> However, SPP also indicated that no load-reduction demand

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<sup>15</sup> *Id.* P 18.

<sup>16</sup> *EPSA v. FERC*, 753 F.3d 216, 225. Subsequently, on January 25, 2016, the United States Supreme Court reversed and remanded the judgment of the D.C. Circuit. *See FERC v. Elec. Power Supply Ass'n*, 136 S.Ct. 760, 784.

<sup>17</sup> *Sw. Power Pool, Inc.*, Notice of Extension of Time, Docket No. ER12-1179-016 (Nov. 21, 2014).

<sup>18</sup> Southwest Power Pool, Inc., 15 Month Informational Report, Docket No. ER12-1179, *et al.*, at 14-15 (filed June 1, 2015).

<sup>19</sup> SPP May 2016 Compliance Filing at 4.

response activity had occurred in the Integrated Marketplace and, due to the lack of data, SPP had not had the opportunity to evaluate the need for any specific adjustments to its cost allocation methodology or its net benefits test design. SPP stated that it believed no adjustments were needed to its cost allocation methodology. SPP requested that, after load-reduction demand response activity had occurred in the Integrated Marketplace, it be permitted to file a report regarding such activity and propose a timeline for any net benefits test or cost allocation methodology adjustments and/or revisions to the Tariff as necessary.<sup>20</sup>

## **B. Deficiency Letter**

11. On February 2, 2018, Commission staff issued a deficiency letter requesting that SPP provide an update on whether any demand response activity had occurred in the SPP region since SPP submitted its May 2016 Compliance Filing. Commission staff asked whether, if such demand response activity had occurred, there was now sufficient data available for SPP to determine whether its cost allocation mechanism continued to comply with the requirements of Order No. 745. Commission staff also asked whether SPP now had available, sufficient data to determine whether its measurement and verification provisions continued to ensure that appropriate baselines are set and that demand response continued to be adequately measured and verified as necessary to ensure demand response resource performance consistent with the requirements of Order No. 745.

12. In addition, Commission staff requested information on whether certain aspects of SPP's net benefits test methodology remained appropriate within the context of the Integrated Marketplace day-2 market design, given the availability of Integrated Marketplace offer and supply curve data. In particular, Commission staff asked SPP to explain whether it remained appropriate to: (1) exclude non-peak hours from the development of supply curves for the identification of the cost-effectiveness threshold; and (2) smooth hourly supply curves individually, determine the threshold price, and then compute the average of the threshold prices to determine the cost-effectiveness threshold for the month, rather than average the curves together, smooth the average curve, and determine the cost-effectiveness threshold from the smoothed, averaged curve.

## **C. SPP's Deficiency Response**

13. In response to the deficiency letter, SPP states that there has not been any load-reduction demand response activity in its region and that, in the absence of such data, it has not observed a need for any adjustments to the demand response cost allocation and/or measurement and verification provisions in its Tariff. However, SPP states that

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<sup>20</sup> *Id.* at 4-5.

specific changes to its net benefits test methodology 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. SPP notes that, in the Integrated Marketplace, centralized unit commitment and the real-time balancing market's 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 (1) adjust its net benefits test methodology to use all available offer data and include non-peak hour data in the construction of supply curves, and (2) first average supply curves and then smooth the resulting average curve when performing the net benefits test. SPP states that, "To the extent the Commission so directs, SPP believes it would be appropriate to submit proposed Tariff revisions effecting the two design changes."<sup>21</sup>

### **III. Notice and Responsive Pleadings**

14. Notice of SPP's May 24, 2016 Filing was published in the *Federal Register*, 81 Fed. Reg. 35,008 (2016), with interventions and protests due on or before June 14, 2016. None was filed.

15. Notice of SPP's March 5, 2018 response to the deficiency letter was published in the *Federal Register*, 83 Fed. Reg. 10,715 (2018), with interventions and protests due on or before March 26, 2018. None was filed.

### **IV. Discussion**

16. We find that SPP's compliance filing partially complies with the directives of the April 2014 Order, and we therefore accept SPP's compliance filing, effective on the date of the issuance of this order, subject to a further compliance filing, as discussed below.

17. In the April 2014 Order, the Commission directed SPP to submit an additional compliance filing to: (1) reevaluate its net benefits test methodology using Integrated Marketplace data and propose any necessary changes to make its methodology compliant with Order No. 745; and (2) reevaluate the appropriateness of its system-wide demand response cost allocation mechanism and determine whether it would continue to be compliant with Order No. 745. In addition, the Commission required SPP to also include in its 15-month Integrated Marketplace informational report an explanation of how its demand response measurement and verification methodologies continued to ensure that appropriate baselines are set and that demand response performance continued to be adequately measured and verified consistent with Order No. 745.

18. With regard to the first directive, in its Deficiency Response, SPP states that it

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<sup>21</sup> SPP Deficiency Response at 5.

would be appropriate to (1) adjust its net benefits test methodology to use all available offer data and include non-peak hour data in the construction of supply curves, and (2) first average supply curves and then smooth the resulting average curve when performing the net benefits test. We agree with SPP that these two design changes to SPP's net benefits test methodology are appropriate given the greater availability of offer data in the Integrated Marketplace. Therefore, we direct SPP to submit, within 30 days of the date of this order, revisions to its Tariff implementing these two net benefits test methodology changes, to be effective on the date of the issuance of this order.

19. Concerning the second compliance directive, SPP states that there has not been any load-reduction demand response activity in its region and that, in the absence of such data, it has not observed a need for any adjustments to the demand response cost allocation provisions in its Tariff.<sup>22</sup> We find that, due to the lack of demand response activity in the Integrated Marketplace, SPP is limited in its ability to further evaluate its cost allocation methodology. Accordingly, we find that SPP's explanation addresses the Commission's directive to reevaluate the appropriateness of its system-wide demand response cost allocation mechanism and whether it would continue to be compliant with Order No. 745.

20. Finally, in the April 2014 Order, the Commission directed SPP to include in its Integrated Marketplace 15-month informational report an explanation of how its measurement and verification methodologies ensure that appropriate baselines are set and that resource performance is consistent with Order No. 745. However, due to the lack of demand response activity in the Integrated Marketplace, SPP is unable to evaluate the appropriateness of its measurement and verification methodologies. Therefore, we will not require SPP to further evaluate the continued appropriateness of its cost allocation and measurement and verification methodologies at this time.

The Commission orders:

(A) SPP's compliance filing is hereby accepted, to be effective on the date of the issuance of this order, subject to condition, as discussed in the body of this order.

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<sup>22</sup> SPP May 2016 Compliance Filing at 5; SPP Deficiency Response at 4.



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(B) SPP is hereby directed to submit a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.

Document Content(s)

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