

February 29, 2012

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

Re: *Southwest Power Pool, Inc.*, Docket No. ER12-____-000
Submission of Tariff Revisions to Implement SPP Integrated Marketplace

Pursuant to section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, and Part 35 of the Regulations of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. Part 35, Southwest Power Pool, Inc. (“SPP”), as authorized by its Board of Directors, submits revisions to its Open Access Transmission Tariff¹ to implement the SPP Integrated Marketplace. SPP requests an effective date of March 1, 2014 for the Tariff revisions submitted in this filing, and requests that the Commission issue an order on this filing by July 31, 2012, as discussed in more detail below.

I. EXECUTIVE SUMMARY

Since its inception as a power pool tasked with providing continuous reliable power to manufacturers essential to national defense in the early days of World War II, SPP has continuously strived to develop services that provide increasing regional benefits to owners, operators, and users of the bulk electric system in the eight state SPP Region. As part of this process, SPP’s functional roles have progressively expanded, with early transmission administration responsibilities evolving into much broader responsibilities as a Commission-approved Regional Transmission Organization (“RTO”). More recently, SPP successfully implemented, and currently operates, a Real-Time Energy Imbalance Service (“EIS”) Market. This filing marks the next step in SPP’s Strategic Plan to provide regional benefits to stakeholders – the SPP Integrated Marketplace.

The Integrated Marketplace proposal represents the culmination of several years of intense SPP stakeholder efforts to develop a comprehensive market design for the SPP

¹ Southwest Power Pool, FERC Electric Tariff, Sixth Revised Volume No. 1 (“Tariff”). Italicized language in the Tariff represents language that is pending before the Commission in other dockets.

Region. As proposed, the Integrated Marketplace includes Day-Ahead and Real-Time Energy and Operating Reserve Markets and Transmission Congestion Rights markets aimed at maximizing the cost-effective utilization of Energy Resources and the regional Transmission System.² The SPP Integrated Marketplace co-optimizes the deployment of Energy and Operating Reserve to achieve lowest-cost Resource utilization, resulting in estimated net benefits of between \$45 and \$100 million per year.

SPP and its stakeholders engaged in a pragmatic approach to developing the Integrated Marketplace, carefully reviewing the Commission-approved market designs of other RTOs to identify effective market design elements and avoid the pitfalls that other RTOs encountered in designing their markets. To the extent possible, SPP has endeavored to model its Integrated Marketplace elements on those successfully operating in other RTO markets, modified as necessary to address regional differences and SPP stakeholder needs. Through the active involvement of SPP's stakeholder community, including the SPP Regional State Committee ("RSC"), SPP has developed its Integrated Marketplace to provide lower overall costs for wholesale power in the SPP Region while expanding economic opportunity for both existing and new Market Participants.

As discussed in more detail below, SPP anticipates commencing operation of the Integrated Marketplace on March 1, 2014. SPP is submitting this filing two years in advance of the Integrated Marketplace launch to ensure adequate time for Commission approval prior to the final development of the necessary systems and software to operate the Integrated Marketplace. Additionally, because some Market Participants must obtain state regulatory approval to participate in the Integrated Marketplace, SPP submits this filing to provide ample time for state commissions to examine the final Integrated Marketplace design, as approved by the Commission, in reviewing Market Participant requests for approval to participate. Accordingly, SPP requests that the Commission issue an order on this filing by July 31, 2012, with the goal of obtaining final approval of the market rules for the Integrated Marketplace, following any necessary compliance filings, by the end of 2012.

As demonstrated below and in the accompanying Tariff language, direct testimony, and exhibits, Commission approval of SPP's Integrated Marketplace is just and reasonable and serves the public interest by facilitating more efficient and cost-effective utilization of Resources and transmission facilities in the SPP Region. For the reasons discussed in this filing, the Commission should approve the proposed Tariff revisions as just and reasonable, and conditionally approve the Integrated Marketplace to commence on March 1, 2014, conditioned as necessary upon SPP's submission of additional filings described in this letter.

² If not defined in this letter, capitalized terms in this letter have meanings ascribed to them in the SPP Tariff as submitted in this filing.

II. BACKGROUND

A. SPP

SPP is a Commission-approved RTO. It is an Arkansas non-profit corporation with its principal place of business in Little Rock, Arkansas. SPP currently has 65 Members serving more than 6 million households in a 370,000 square-mile area. Its Members include 14 investor-owned utilities, 11 municipal systems, 12 generation and transmission cooperatives, 4 state agencies, 7 independent power producers, 10 power marketers, and 7 independent transmission companies. As an RTO, SPP administers open access Transmission Service over approximately 48,930 miles of transmission lines covering portions of Arkansas, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, and Texas, across the facilities of the SPP Transmission Owners.³

Additionally, since February 1, 2007, SPP has administered the centralized Real-Time EIS Market,⁴ which is governed by Attachment AE of the SPP Tariff.

B. Summary and Description of Testimony

Accompanying this filing, SPP provides supporting testimony from several witnesses. Mr. Carl A. Monroe, SPP Executive Vice President and Chief Operating Officer, provides an overview of the Integrated Marketplace design and an explanation of SPP's process for determining appropriate markets and design.⁵ Mr. Richard L. Dillon, SPP Director of Market Design, offers detailed testimony providing the technical basis for specific features of the Integrated Marketplace design.⁶ Mr. Thomas P. Dunn, SPP Vice President and Chief Financial Officer, provides testimony addressing revisions to SPP's Credit Policy to accommodate the Integrated Marketplace.⁷ Finally, Dr. John Hyatt, Ph.D., Supervisor of SPP's Independent Market Monitoring Unit ("Market

³ See *Sw. Power Pool, Inc.*, 89 FERC ¶ 61,084 (1999); *Sw. Power Pool, Inc.*, 86 FERC ¶ 61,090 (1999); *Sw. Power Pool, Inc.*, 82 FERC ¶ 61,267, *order on reh'g*, 85 FERC ¶ 61,031 (1998).

⁴ *Sw. Power Pool, Inc.*, 118 FERC ¶ 61,055 (2007) (accepting SPP's Market Readiness Certification and authorizing a February 1, 2007 start date for the EIS Market).

⁵ Exhibit No. SPP-1.

⁶ Exhibit No. SPP-3.

⁷ Exhibit No. SPP-4.

Monitor”), testifies regarding SPP’s Market Power Study and the Market Monitor’s recommendations to address Market Power issues in the Integrated Marketplace.⁸

C. Stakeholder Approval

As discussed in more detail in the Testimony of Mr. Monroe, SPP engaged in a multi-year stakeholder process to develop the Integrated Marketplace,⁹ beginning with the launch of the EIS Market and culminating with this filing.

The SPP Market Working Group (“MWG”)¹⁰ developed the market protocols governing the Integrated Marketplace, which were approved by the SPP Markets and Operations Policy Committee (“MOPC”)¹¹ in October of 2010, followed by approval by the SPP Board of Directors in January of 2011. The SPP Joint Markets Tariff Task Force (“JMTTF”)¹² developed the Tariff language for the Integrated Marketplace based on the protocols, approving the Tariff language on August 25, 2011. The SPP Regional Tariff Working Group (“RTWG”)¹³ made further refinements and unanimously approved the Tariff revisions on November 18, 2011, subsequently approving additional minor Tariff revisions on January 5, 2012 and January 26, 2012.

⁸ Exhibit No. SPP-5.

⁹ Exhibit No. SPP-1 at 7-11.

¹⁰ The MWG is responsible for the development and coordination of the changes necessary to support any SPP administered wholesale market(s), including Energy, congestion management, and market monitoring, consistent with direction from the SPP Board of Directors.

¹¹ The MOPC consists of a representative officer or employee from each SPP Member and reports to the SPP Board of Directors. Its responsibilities include recommending modifications to the SPP Tariff. *See* Southwest Power Pool, Inc., Bylaws, First Revised Volume No. 4 (“Bylaws”) § 6.1.

¹² The JMTTF was an ad hoc task force created to translate the Integrated Marketplace Protocols into Tariff language. The JMTTF consisted of the chairs and senior members of the MWG and the SPP Regional Tariff Working Group. Exhibit No. SPP-1 at 9.

¹³ The RTWG is responsible for development, recommendation, overall implementation, and oversight of SPP’s Tariff. The RTWG also advises SPP staff on regulatory and implementation issues not specifically covered by the Tariff or issues where there may be conflicts or differing interpretations of the Tariff.

On December 6, 2011, the MOPC overwhelmingly approved the proposed Tariff language, approving the additional minor revisions on January 17, 2012. On January 31, 2012, the SPP Members Committee¹⁴ voted in favor of, and the SPP Board of Directors approved, the Integrated Marketplace Tariff revisions submitted in this filing. While SPP recognizes that stakeholder approval does not by itself cause a filing to be just and reasonable, SPP requests that the Commission extend appropriate deference to the wishes of its stakeholders regarding the Tariff modifications proposed in this filing, consistent with Commission precedent.¹⁵

III. OVERVIEW OF THE INTEGRATED MARKETPLACE

The SPP Integrated Marketplace includes the following elements:

- (1) Day-Ahead Energy and Operating Reserve Market;
- (2) Day-Ahead and Intra-Day Reliability Unit Commitment (“RUC”) Processes;
- (3) Real-Time Balancing Market (“RTBM”), which will replace the current EIS Market;
- (4) Price-based Operating Reserve procurement co-optimized with Energy;
- (5) Market for Transmission Congestion Rights (“TCR”) including Auction Revenue Rights (“ARR”);

¹⁴ The Members Committee consists of up to 19 representatives of the Transmission Owning Member and Transmission Using Member sectors of SPP’s Membership. This committee provides input to and assists the SPP Board of Directors with the management and direction of the general business of SPP. *See* Bylaws § 5.1.

¹⁵ The Commission previously has recognized that provisions approved through the stakeholder processes of RTOs are due deference. *See Sw. Power Pool, Inc.*, 127 FERC ¶ 61,283, at P 33 (2009) (noting that the Commission “accord[s] an appropriate degree of deference to RTO stakeholder processes”); *New England Power Pool*, 105 FERC ¶ 61,300, at P 34 (2003), *reh’g denied*, 109 FERC ¶ 61,252 (2004) (Commission approval of transmission cost allocation proposal based upon an extensive and thorough stakeholder process); *Policy Statement Regarding Regional Transmission Groups*, 1991-1996 FERC Stats. & Regs., Regs. Preambles ¶ 30,976, at 30,872 (1993) (the Commission will afford an appropriate degree of deference to the stakeholder approval process). The Commission’s deference to RTO stakeholder processes has been upheld by the courts. *See Pub. Serv. Comm’n of Wis. v. FERC*, 545 F.3d 1058, 1062-63 (D.C. Cir. 2008) (noting that the Commission often gives weight to RTO proposals that reflect the position of the majority of the RTO’s stakeholders) (quoting *Am. Elec. Power Serv. Corp. v. Midwest Indep. Transmission Sys. Operator, Inc.*, 122 FERC ¶ 61,083, at P 172, *reh’g denied*, 125 FERC ¶ 61,341 (2008)).

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