UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Southwest Power Pool | Docket Nos. ER06-729-002
ER06-729-003

ORDER ON REHEARING AND COMPLIANCE FILING

(Issued January 26, 2007)

1. In this order, we grant Southwest Power Pool Inc.'s (SPP) limited request for rehearing of the Commission's order issued October 19, 2006.[1] The October 19 Order addressed SPP's proposed revised loss compensation procedures in Attachment AE, Energy Imbalance Service Market (Imbalance Market), and Attachment M, Loss Compensation Procedures, of its Open Access Transmission Tariff (OATT).[2] In addition, we approve SPP's OATT revisions proposed in its filing of November 20, 2006 to comply with the October 19 Order.

Background

2. On June 15, 2005, SPP filed (June 15 Filing) to establish an Imbalance Market within SPP's footprint. As part of the June 15 Filing, SPP proposed certain modifications to its loss compensation procedures for energy losses in Attachment M to its OATT. On September 19, 2005, the Commission issued an order[3] that rejected the June 15 Filing,

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[1] *Southwest Power Pool, Inc.*, 117 FERC ¶ 61,060 (2006) (October 19 Order).

[2] SPP's proposed Imbalance Market is a real-time energy imbalance market that will implement least cost security constrained economic dispatch to develop Locational Imbalance Prices (LIP). An LIP (or nodal price) is the market clearing price at a specific location.

[3] *Southwest Power Pool, Inc.*, 112 FERC ¶ 61,303 (September Order), *order on reh'g*, 113 FERC ¶ 61,115 (2005).

including the modifications to the loss compensation procedures, and provided guidance encouraging SPP to explain its loss compensation procedure in more detail. In part, the Commission stated, "SPP should explain the rationale for settling losses based on the sink nodal price instead of the source nodal price, and demonstrate that no over- or under-recovery will occur by using the sink nodal price."[4]

3. On March 14, 2006, SPP filed a more fully developed loss compensation procedure (March 14 Filing) that allows for transmission customers to self-supply or financially settle their losses using the Imbalance Market. The Commission conditionally accepted SPP's March 14 Filing but directed SPP to provide additional detail and clarity to Attachment M so that the rates SPP is charging under the loss compensation procedure are clear.[5]

4. Additionally, in response to the Commission's concern expressed in the September Order regarding potential over- or under-recovery of revenues from using the sink market price instead of the source market price, SPP proposed in the March 14 Filing to reflect any such over- or under-recovery in the revenue neutrality uplift in Attachment AE. In an order issued May 11, 2006,[6] the Commission conditionally accepted subjecting any over- or under-recovery in the loss compensation procedure to the revenue neutrality uplift charge in section 5.6 of Attachment AE. However, the Commission found in the May Order that the text of Attachment M was vague as to which transactions would have over- or-under-recoveries necessitating the revenue neutrality uplift charge.[7] Further, the Commission found the text of Attachment M to be

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[4] *See* September Order at P 63 (giving a more detailed description of the Commission's guidance regarding loss compensation).

[5] Among other things, the Commission also required SPP to make certain stylistic, non-substantive edits; explain how Transmission Owners receiving the loss energy would be designated for self-supplied losses associated with through and out transactions; and explain how SPP will determine the market price a receiving Transmission Owner must pay if the Transmission Owner has native load in more than one settlement location.

[6] 115 FERC ¶ 61,167 (2006) (May Order).

[7] For example, for into and within transactions, Attachment M stated merely that losses were priced in conjunction with the operation and settlement of the Imbalance Market as described in Attachment AE. Whereas, for self-supplied losses associated with through and out transactions, Attachment M states explicitly that section 5.6 of Attachment AE will apply.

inconsistent with SPP's transmittal letter.[8] Therefore, in the May Order the Commission required SPP to clarify Attachment M to explicitly state which transactions would have over- or under-recoveries that would be subject to section 5.6 of Attachment AE.[9]

5. SPP's August 1, 2006 compliance filing (August 1 Filing) provided additional clarification with respect to the loss compensation procedure. While the August 1 Filing clarified certain aspects of the loss compensation procedure, the Commission found in the October 19 Order that SPP had yet to address other requirements. The Commission expressed its continued concern that there may be over- or under- recoveries if losses are compensated at the sink nodal price. The Commission ordered SPP to modify the revenue distribution associated with loss compensation so that providers of loss service receive the source nodal price and any amount above the source nodal price is included in the revenue neutrality uplift process in section 5.6 of Attachment AE.[10] The Commission also required SPP to modify Attachment M to make this revenue distribution clear.

6. In addition, the Commission expressed its concern that all generators (*i.e.*, generators affiliated with Transmission Owners as well as unaffiliated generators) providing loss compensation service receive their share of loss revenue for both into and within losses and through and out losses. Thus, the Commission directed SPP to modify its revenue distribution process in Attachments AE and M to ensure that all generators, regardless of their affiliation with Transmission Owners, receive revenue for providing loss compensation service.[11] Additionally, the Commission found that Attachment M to the SPP OATT lacked sufficient detail regarding the operation of the loss compensation procedure; therefore, the Commission ordered SPP to add the needed specificity including illustrative examples.

7. The Commission accepted SPP's August 1 Filing conditionally to be effective December 1, 2006, or on such later date as SPP's Imbalance Market becomes effective,

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[8] For example, SPP's March 14 Filing transmittal letter stated that the revenue neutrality uplift charge in section 5.6 of Attachment AE would address the issue of over- and under-recoveries for into and within transactions but that it would be unnecessary for self-supplied losses associated with through and out transactions.

[9] May Order at P 17. Additionally, since other regions of the country had experienced larger-than-expected uplift charges, the Commission required SPP to make a filing one year after the commencement of the Imbalance Market detailing the amount of the revenue neutrality uplift payments associated with losses for Commission review. *Id*.

[10] October 19 Order at P 17.

[11] *Id.* at P 18.

subject to revisions, explanation, and further orders of the Commission addressing SPP's Imbalance Market and Attachments AE and M.

Request for Rehearing

8. On November 20, 2006, SPP filed a limited request for rehearing seeking relief from two of the requirements of the October 19 Order. SPP states that the market design and system processes of its Imbalance Market are not compatible with the revenue attribution and distribution modifications ordered by the Commission.

9. On rehearing, SPP asks the Commission to confirm that SPP may settle into and within transactional losses based on the LIP at the settlement location of the load. SPP states that no distinction is made on either the generation side or on the load side in terms of whether the energy produced or used is for losses or for meeting load requirements. SPP notes that in its Imbalance Market design, a market participant's total energy responsibility includes both its load responsibility and loss responsibility. SPP states that to determine a market participant's energy imbalance responsibility, the total energy responsibility is subtracted from the market participant's self-dispatched generation. Where this process results in a negative number (*i.e.*, where the market participant does not self-dispatch sufficient resources to meet its total energy responsibility), SPP states an energy imbalance obligation arises. SPP states that under its Imbalance Market design and loss compensation procedures, all imbalance obligations are priced at the LIP of the load settlement location and no distinction is or can be made as to whether the energy is used for load or for losses.

10. With respect to the provision of imbalance energy, SPP states that all imbalance energy received by SPP and used in the Imbalance Market is priced at the LIP of the generator providing the service. SPP deems losses to occur at the sink point and customers pay on that basis. However, SPP states, financial settlement is made by allocation to the generators through the normal Imbalance Market settlement process (*i.e.*, based on the generator's LIP), with no distinction drawn (or capable of being drawn) between loss energy and load energy. Therefore, SPP requests the Commission grant rehearing and confirm that its Imbalance Market design and loss compensation procedures address the Commission's concern regarding the proper pricing and compensation of energy losses.

11. In addition, SPP states that its revenue distribution for loss energy does not discriminate against unaffiliated generators in favor of generators affiliated with Transmission Owners. SPP states that for both "into and within" and "through and out" transactions, SPP's Imbalance Market protocols recognize that the losses, including the losses of Transmission Customers, are metered to the Transmission Owners (*i.e.*, included in the Transmission Owner's total energy obligation) and as a result the

facilities of the Transmission Owners are impacted by losses.[12] SPP explains further that for control area operators, the loss impacts resulting from Transmission Customer transactions that occur within the Transmission Owner's control area are indistinguishable from the Transmission Owner's own load and related losses, which are resolved in the Imbalance Market. SPP settles with the Transmission Owners based on the sum of the energy metered to each Transmission Owner,[13] multiplied by the LIP of the designated settlement location.

12. SPP states that although its Imbalance Market design prescribes differences in the procedures for handling losses for "through and out" versus "into and within" transactions, all generators within the SPP footprint have the same opportunity to provide imbalance energy through SPP's Imbalance Market and all imbalance transactions are similarly settled. For "into and within" transactions, all generators are compensated in the same manner based on the LIP where the energy is generated. For "through and out" transactions, however, SPP explains that it does not directly distribute loss revenue to the generators whose energy comprises the Transmission Owners' load responsibility because financial settlement is with the Transmission Owners based on losses deemed to have been provided by the Transmission Owners (*i.e.*, embedded within the Transmission Owner's load). SPP states that since all financial settlements of losses, whether into and within or through and out, consistently reflect the relevant LIP, there is no potential for either opportunity or pricing discrimination in SPP's loss compensation procedures.

Commission Determination

13. In the October 19 Order, the Commission expressed two concerns regarding revenue distribution. The first concern was that generator over-recovery could occur as a result of using the sink nodal price to compensate losses. The second concern was that while the tariff sheets in Attachment M discussed revenue distribution to Transmission Owners, the same sheets were silent as to how or whether unaffiliated generators would receive a share of the revenues. These concerns arose due to a lack of clarity as to both the operation of the loss compensation procedure in Attachment M and the interplay between the loss compensation procedure in Attachment M and the Imbalance Market in Attachment AE. In addition, the Commission had concerns as to the specific operations of SPP's loss compensation procedures and explained how to address these concerns

[12] Transactions under the OATT impact the facilities of the Transmission Owners creating losses. SPP states that with control area metering used to determine a Transmission Owner's load, the impact of loss energy is embedded as part of the Transmission Owner's total energy obligations.

[13] The amount of energy impact included in the Transmission Owner's total energy obligation consists of the Transmission Owner's load energy, the Transmission Owner's loss energy and the Transmission Customer's loss energy.

stating that "at this time, the Commission believes that adding illustrative examples as appendices to Attachment M and addressing the other concerns as expressed above [concerning revenue distribution] will help address the Commission's concern for additional detail as to the operation and settlement of losses in Attachment M."[14]

14. Given SPP's explanation in its request for rehearing and the added clarity provided by the modifications to Attachment M included in the compliance filing, addressed below, we are satisfied with respect to the revenue distribution of SPP's loss compensation procedure. As SPP explains, all imbalance energy received by SPP and used in the Imbalance Market is priced at the LIP of the generator providing the service and financial settlement is made by allocation to the generators through the normal Imbalance Market settlement process, which is based on the generator's LIP, both for loss energy and load energy. Thus, generators are compensated at the source price, the generator's LIP, not the sink price for the loss energy they supply as imbalance energy in the Imbalance Market. In addition, SPP explains that there is no difference in the opportunity for unaffiliated generators to participate in the sale of loss energy as imbalance energy in the Imbalance Market and to be compensated for such energy. Accordingly, we grant SPP's request for rehearing.

15. We remind SPP that in the September Order, we stated that "since marginal losses can provide efficient price signals, we encourage SPP to reevaluate at each future phase in its development the decision to use average losses instead of marginal losses."[15] Our acceptance of SPP's loss compensation procedure in this proceeding does not alter our directive in the September Order.

Compliance Filing

16. On November 20, 2006, SPP submitted a filing to comply with the October 19 Order (November 20 Filing). SPP states that it is unable to comply with certain directives of the Commission's October 19 Order, for which it filed the limited request for rehearing discussed above. Otherwise, SPP states the November 20 Filing addresses the remaining Commission directives. SPP states it has clarified Attachment M to more accurately depict losses as an impact upon SPP Transmission Owners that manifests itself as load. SPP also included two illustrative examples to further explain its loss compensation procedures.

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[14] October 19 Order at P 20.

[15] *Southwest Power Pool, Inc.*, 112 FERC ¶ 61,303, at P 23 (2005).

17. SPP notes that its Board of Directors recently delayed again the commencement date of the Imbalance Market. The new commencement date is expected to be February 1, 2007. SPP requests an effective date of February 1, 2007 or such later date that the Imbalance Market begins operations.[16]

Notice of Filing and Responsive Pleadings

18. Notice of SPP's November 20 Filing was published in the Federal Register, 71 Fed. Reg. 70,375 (2006) with motions to intervene or protests due on or before December 11, 2006. No motions to intervene or protests were filed.

Commission Determination

19. As discussed above, we find that SPP has sufficiently addressed our concerns about the needed specificity of the operation of the loss compensation procedure in Attachment M. SPP's revisions to Attachment M describe loss energy as an impact on the facilities of the Transmission Owner that manifests itself as load, since SPP's Imbalance Market protocols recognize that losses are metered to the Transmission Owner. These changes clarify that losses may be attributable to entities other than Transmission Owners and that (non-self-supplied) loss energy may be supplied by suppliers other than those affiliated with Transmission Owners when it occurs as imbalance energy in the market.

20. The examples SPP provides in the November 20 Filing further clarify the loss procedures. The examples in new Appendix 2 to Attachment M indicate that for through and out transactions, Transmission Owners share revenue among themselves to the extent they are deemed to have provided loss energy according to SPP's MW-mile methodology. When a Transmission Owner does not self-dispatch enough energy to cover its total energy obligation (load plus losses), loss energy is purchased from the Imbalance Market at the LIP of the predetermined load Settlement Location. The illustrative examples in new Appendix 3 to Attachment M indicate that for into and within transactions, a market participant may self supply losses by injection of energy at the source and any amount not self-supplied is considered a purchase of loss energy in the Imbalance Market at the LIP of the load Settlement Location. Accordingly, we accept SPP's compliance filing.

21. With respect to the requested effective date, the Commission grants an effective date of February 1, 2007 or such later date as SPP's Imbalance Market becomes effective.

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[16] SPP filed on December 22, 2006 its market readiness certification in Docket No. ER06-451-017 indicating February 1, 2007 as its start date.

<u>The Commission orders:</u>

(A) SPP's request for rehearing is granted.

(B) SPP's November 20 Filing is accepted to be effective February 1, 2007, or on such later date as SPP's Imbalance Market becomes effective.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.