Nicholas A. Brown
President & Chief Executive Officer

September 8, 2017

The Honorable Fred Upton, Chairman
Subcommittee on Energy
House Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515-6115

Dear Chairman Upton:

Thank you for the opportunity to appear before the Subcommittee on Energy on Wednesday, July 26, 2017, to testify at the hearing entitled "Powering America: A Review of the Operation and Effectiveness of the Nation's Wholesale Electricity Markets."

Pursuant to the Rules of the Committee on Energy and Commerce, please find the attached responses to the questions submitted by Members.

Thank you again for your time and for allowing me the opportunity to delivery my testimony before the Subcommittee.

Take care,

[redacted]

Nick Brown
President and Chief Executive Officer
Southwest Power Pool, Inc.

cc: The Honorable Bobby L. Rush, Ranking Member, Subcommittee on Energy

Attachment

The Honorable Fred Upton

1. **It has been more than 7 years since FERC embarked on its efforts to promulgate new transmission planning reforms which resulted in Order No. 1000. Your RTO is designated as "Order 1000 transmission planning regions." Now that you have real-world experience with these reforms, do you think FERC's efforts at reforming transmission planning and cost allocation have succeeded, failed, or landed somewhere in between?**

   The Commission's stated intent in Order No. 1000 was to increase the coordination and joint planning in and between regions, and to introduce competitive options for transmission expansion. SPP has identified four areas of opportunities to facilitate achievement of the intended benefits of Order 1000 and competitive transmission development. These include: 1) interregional issues; 2) multiple region planning; 3) thresholds for competitive transmission solicitation procedures; and 4) Order 1000 implementation metrics.

   To date, interregional planning efforts have had little, if any, success in terms of project development. Regional planning rules that exclude projects from regional cost allocation make those same types of projects ineligible for interregional cost allocation. This effectively precludes such projects from even consideration for development, despite the incremental operational and/or economic benefits they could provide.

   Other rules do not allow a comprehensive set of benefits to be calculated or considered. Minimizing the types of projects and/or benefits reduces the likelihood that project costs can be overcome and an equitable cost allocation can be obtained. SPP knows that only agreeable and equitable cost allocation will get projects built. Projects considered should be driven by a full range of operational and economic benefits, not other criteria, such as the physical or cost characteristics of projects – e.g. voltage, mileage or project cost. While the objective nature of these criteria for determining projects to develop are attractive from an administration perspective, they may not be meaningful to the comprehensive benefits of a project, or may create artificial barriers to beneficial projects but fall outside of these criteria.

   The value of competitive transmission solicitations is the potential economic benefit of identifying a more efficient and cost-effective solution that meets the system needs. However, the cost of the project is not the only relevant cost in assessing the benefits of this process. The administrative costs to create a competitive proposal and the costs to administer and evaluate these competitive proposals raises questions as to whether the relative costs and benefits justify the application of a competitive solicitation. Based on recent experience, SPP believes that for some smaller projects, when selected for development, the benefits intended to be achieved by the competitive solicitation process may not be justified in light of the total costs incurred by all parties to achieve those benefits. One way to mitigate this concern would be to apply regionally appropriate

thresholds to the competitive solicitation process. Threshold examples include the requirement of regional funding, physical characteristics of the project and projected costs of the upgrade. In essence, the premise of such a threshold would justify the use of the competitive solicitation process, but not for the project to be developed.

Of note, several states in the SPP footprint have adopted Right of First Refusal laws which require that incumbent transmission owners have a right to build facilities to serve their load. Other have considered such laws. So while FERC has found competition to be in the public interest, many states via their legislative and executive branches have enacted legislation to ensure that incumbent utilities have the right to build transmission facilities in their states.

The benefits of the novel and complex rules imposed by Order No. 1000 have yet to be fully evaluated in any meaningful way. In order to assess the benefits achieved, it may be helpful to consider the development of objective, transparent metrics while accounting for the regional differences in specific implementation rules.

2. Your RTO stretches all the way from the Gulf of Mexico to the Canadian border and your footprint has grown more dramatically than any other RTO during the past few years. To what do you attribute your rapid expansion and addition of new service territories?

SPP celebrated its 75th anniversary last year and we have certainly evolved in our functions, responsibilities and size of our region. As you know, ISO/RTO membership is voluntary and our growth has come from utilities that were not part of an ISO/RTO. These utilities, in their due diligence, consider the costs and benefits of participation in a larger regional organization that include production cost savings, more efficient transmission planning and expansion, economies of scale for necessary functions of utilities, training, FERC and NERC compliance costs and a host of other considerations.

In 2009, we integrated Nebraska, which consists of public power, further diversifying our membership. In 2014, we added the Integrated System (IS), which consists of public power and electric cooperatives, primarily located in all or part of North Dakota, South Dakota, Montana, Wyoming, Minnesota and Iowa. This included the integration of the first federal agency to join an ISO/RTO: the Western Area Power Administration (WAPA) Upper Great Plains Region.

While markets provide the largest monetary benefit to joining an RTO, other factors are important to new members. While Nebraska and the IS considered membership in other ISO/RTOs, I believe they selected SPP primarily because of our geographical location to them, our governance structure, culture and member-driven approach.

Additionally, we are currently in discussions with the Mountain West Transmission Group located in the western interconnection, which consists of public power, electric

cooperatives and investor-owned utilities, located in all or part of Montana, Wyoming, South Dakota, Nebraska, Colorado, Utah, Arizona and New Mexico. It should be noted that we already cover parts of Montana, Wyoming, South Dakota, Nebraska, and New Mexico.

3. **Unlike some of the other RTOs, Southwest Power Pool does not have a capacity market, and hence does provide resources with a capacity payment.**
    a. **How do resources that compete in your markets recover costs?**
    b. **How do you ensure that your real-time and day-ahead energy markets send accurate price signals that incentivize investment in existing and new generating and transmission resources?**

SPP is unique in that there are no states in its footprint that provide Retail Open Access. As a result, the obligation to serve has remained with the utilities and is managed through the requirements of the local regulatory authorities. SPP has analyzed the need for capacity and is able to reduce each utility's requirements based on coordination and cooperation as well as the diversity within the SPP footprint. These obligations result in the utilities entering into contracts for capacity or to build generation. These costs are paid directly by the end-use customers of each utility in their base rates. These local regulatory obligations decrease the need for capacity payments as the vast majority of capacity in SPP's footprint is funded by local utilities via their state regulatory constructs. As a side issue, the SPP region has significant excess capacity which is a further disincentive to the need or development of capacity and a capacity market.

4. **Your RTOs and ISOs play a central role in operating the wholesale electricity markets and (with the exception of ERCOT) your primary regulator is the Federal Energy Regulatory Commission. Do you believe that FERC is appropriately engaged in overseeing wholesale electricity markets?**
    a. **Are there additional areas of regulatory oversight that requires the attention of this Subcommittee?**

Yes, FERC provides appropriate oversight of wholesale electric markets, as well as all other aspects of an ISO/RTO. We operate based on a FERC approved tariff and are regulated and audited by FERC. Additionally, we are regulated by the North American Electric Reliability Corporation (NERC) for enforceable reliability standards. There does not currently appear to be additional areas for regulatory oversight that would require the attention of the Subcommittee.

<u>The Honorable John Shimkus</u>

1. **If, as we learned at the hearing, markets were structured to build only the least expensive generation, we would build nothing but natural gas plants right now.**

a. **Is that correct? Is that what's happening?**
b. **If not, how do you explain other generation sources entering the market?**

The objective of current market designs is to minimize the electricity costs to reliably serve the end-use customers. Although the lowest cost energy is from variable renewable energy sources, the need to maintain the reliable delivery of energy to end use customers requires the addition of more traditional generation, for backup when variable energy sources are not available, for voltage support, frequency support, blackstart, and other reliability needs. Although SPP is not engaged in generation siting and decisions, we understand that the speed and construction costs of gas generation is lower than other traditional generation. Additionally, the gas generation fuel costs have remained low in the SPP region. Because of the abundant wind and potential for solar in the SPP region, generation growth has mostly been in the variable renewable energy. Growth in gas generation anecdotally has been due to low fuel cost and the flexibility to provide a reliability counterpoint to the variable energy.

The Honorable Billy Long

1. **RTO development began in late 1999 with ISO development soon to follow, Both organizations help to monitor our electric power system. There are still a number of gaps in our electric system where problems could occur. What are your thoughts about the creation of another RTO that could include the states of Nevada, Arizona, Colorado, and other western states? Should it be an RTO or an ISO?**

   While ISO/RTO membership is voluntary, nearly all utilities in the eastern interconnection are a member of an ISO/RTO. However, with the exception of California, there is presently no ISO/RTO presence in the western interconnection. SPP is currently in discussions with the Mountain West Transmission Group located in the western interconnection, which consists of public power, electric cooperatives and investor-owned utilities, located in all or part of Montana, Wyoming, South Dakota, Nebraska, Colorado, Utah, Arizona and New Mexico. It should be noted that we already cover parts of Montana, Wyoming, South Dakota, Nebraska, and New Mexico. We believe joining an already existing ISO/RTO is more cost effective than creating a new ISO/RTO. And because of the alignment with our geographical region as well as our managing the existing seven DC ties that connect the east to the west, SPP seems the logical choice to serve the western interconnection.

2. **How are you planning to manage the growing surplus of generation in your respective regions?**

   The growth in generation in SPP provides SPP with several opportunities as well as challenges. First, exports from the SPP region continue to expand and SPP is examining

and cost effectively removing barriers to that growth. Secondly, there are continuing reviews for new products within the SPP markets to value the needed reliability and flexibility of generators. Third, it is expected that each utility is examining their generation economics which could result in their re-evaluation for retirement of generation.

The Honorable Frank Pallone, Jr.

1. **Consumer advocates have identified the resource imbalance between the stakeholder members of the RTO/ISO Boards and the small consumer community as a major barrier to having meaningful representation of consumer viewpoints included in decisions about grid operation and capital project evaluation and approvals. What mechanisms, reductions in costs of stakeholder participation, or other support does your RTO/ISO provide to the small consumer community to facilitate their participation in RTO/ISO governance?**

2. **You indicated at the hearing that Southwest Power Pool had a formal structure (e.g. committee or liaison position) for obtaining input on consumer views and concerns on grid management. Please provide detail about how consumer views are incorporated into decision-making at your RTO/ISO.**
    a. **Do consumer advocates have voting representation on the Board?**
    b. **Do consumer advocates participate actively in the development and approval of grid planning?**
    c. **Are there funds available to support full-time staff that serve the interests of consumer advocates? If so, what is the source of those funds?**

Each ISO/RTO has a different governance structure. FERC has approved and even praised SPP's commitment to transparency and stakeholder engagement. SPP Board and Members Committee meetings, as well as meetings of our Market and Operations Policy Committee (MOPC), are open for the public and press to attend, either in person with no registration fee, or by dialing into the meeting via a toll free number. And when the public or consumers request to speak or ask a question, they are recognized.

SPP governance structure has numerous avenues for consumer minded entities to participate in our stakeholder processes. These avenues range from participating in SPP meetings to filing in FERC dockets in support of or in opposition to RTO filings. Encompassing in these avenues are two specific organizations that consumer minded entities can participate in as specified by SPP's FERC approved by laws – SPP's Regional State Committee (RSC) and SPP Members Committee.

One of the most important organizational groups in SPP's governance structure is the SPP RSC. The RSC consists of a state utility regulator from the states in our region, who are provided specific authorities as part of our FERC approved bylaws. These authorities include cost allocation for transmission upgrades; approach for regional resource

adequacy; and allocation of transmission rights in SPP's markets. SPP's RSC has more than a decade of experience influencing SPP's policies in a manner that are designed with end-use consumers in mind. As just a couple of examples, the RSC takes leadership roles in comprehensive studies to analyze the rate impacts transmission buildout has on consumers. These studies are conducted on a routine basis and are publicly discussed and published. Once these studies are published, they are used to influence SPP's planning processes and any policy adjustments needed to mitigate any inequities.

SPP, through its membership, funds the RSC and its SPP employed support staff, which meets the day before board meetings. We are a non-profit organization whose only income is generated by the fees paid by our member companies and market participants. These state regulators also participate in board meetings. The very duties of a state utility regulator include being an advocate for consumers. While the RSC does not have voting representation on our 10 member independent board, they participate actively in the development and approval of grid planning, including determining the cost allocation for such projects. The RSC often bring proposals to the SPP Board of Directors which are implemented.

In addition to the RSC, SPP's governing structure includes two positions on our Members Committee designated specifically for small and large retail customers. However, SPP has never received a request from eligible retail customers to join SPP that would then allow them to fill these positions. Because SPP has an Independent Board, only board members can vote. However, because the Members Committee meets with the SPP Board, these two retail customer designated positions have the right to participate in a Members Committee advisory vote immediately before the Board votes. These votes are on all RTO policy matters.