

Question/Comment and Answer Summary

On November 1, 2013, Western Area Power Administration (Western) published a *Federal Register* notice (FRN) with a recommendation to pursue formal negotiations with the Southwest Power Pool (SPP), a regional transmission organization (RTO), concerning membership in SPP. The recommendation applies to the transmission facilities within the Pick-Sloan Missouri Basin Program—Eastern Division administered by Western’s Upper Great Plains Region (Western-UGP). This FRN allowed for a comment period, which ended December 16, 2013, seeking public input from Western’s customers, tribes, stakeholders, and the public at large concerning the proposal to pursue formal negotiations for membership in SPP. Western engaged in outreach to customers and other interested parties via a kickoff webinar held November 13, 2013, and three (3) public meetings held November 19-21, 2013, in Lincoln, NE, Sioux Falls, SD, and Fargo, ND. Approximately 108 individuals attended those meetings, and Western received written comments/questions from more than 237 entities and individuals. The letters and emails Western received are posted on Western’s website at <http://www.wapa.gov/ugp/PowerMarketing/AlternateOperationsStudy/AOS.htm>.

This document provides a summary where similar questions/comments have been summarized and a response provided. Some questions and comments cannot be addressed until negotiations are completed with SPP. Below are the summarized questions/comments and answers:

1. I support Western seeking membership in the Southwest Power Pool as described in the *Federal Register* notice and urge moving forward with its recommendations as soon as possible.

Western appreciates the robust support. This comment was received from 174 entities. An additional 43 entities wrote comment letters indicating similar support for the recommendation to pursue negotiations with SPP for membership and several of those were from entities outside of the Western-UGP market area. Some commenters indicated support and suggested specific provisions that Western should seek in its membership negotiations. Western will appropriately consider those suggestions as it negotiates membership in SPP. An additional 20 entities did not specifically support or oppose the recommendation, but provided questions and comments.

2. I’m a municipal in SPP and/or the Midcontinent Independent System Operator (MISO). How does Western joining SPP affect me?

The answer depends on the individual power supply and transmission arrangements of each customer and therefore cannot be answered by Western in this response. In addition, some of the details are not fully available until Western comes to membership terms with SPP.



However, Western staff will meet with individual/specific customers when requested and will provide pertinent information on its website as it becomes available.

3. How does the proposal fit with the mission of Western and its preference customers?

Western-UGP has been involved in evaluating the impacts of the evolution of RTOs/ISOs on its operations and market participation for many years. The goal of Western-UGP's evaluation has always been to ensure it is positioned to properly meet its statutory mission of marketing and delivering clean, renewable, reliable, cost-based hydroelectric power at the lowest possible costs and consistent with sound business principles to its preference customers. This analysis focused on solutions that are unique to the challenges Western-UGP faces within its footprint in the eastern electrical interconnection and does not apply to Western's other Regions in the western electrical interconnection. Provided the assumptions used in the analysis are realized, Western believes its decision to pursue membership in SPP is consistent with these obligations. Western will ensure the requirements of the Energy Policy Act of 2005 (Section 1232) are met. The Alternate Operations Study (AOS) has demonstrated that maintaining the status quo in the Western-UGP is not in the best interests of its preference customers. SPP membership is the best solution to address changes in the utility environment related to new markets, compliance and increased regulation for variable and intermittent resources in the Western-UGP.

4. How would joining SPP affect the 2021 Power Marketing Initiative (PMI) contracts and contracting efforts?

Joining SPP is not expected to have a substantive impact on the 2021 Firm Electric Service (FES) Contracts. Should Western successfully negotiate membership in SPP and become an active member, any remaining Western-UGP customers that have not entered into new Interconnection Agreements prior to the join date may see a change in those particular agreements. Specifically, SPP will likely be a concurring party to those specific contracts.

5. How would joining SPP affect my firm power rate or rate structure, and will Western billing remain the same?

Currently there is no indication the FES rate structure will be modified with Western-UGP joining SPP. As Western negotiates membership with SPP it will be working with customers to identify changes from new charges/fees and additional revenues, and the impact to the FES rate. Purchase power costs and supplier access were major considerations supporting a recommendation to pursue negotiations for membership in SPP. By participating in the SPP market, a reduction in purchase power costs is anticipated. Greater market access for sales during excess water periods should provide additional revenues. Both of these scenarios are anticipated to have a beneficial impact on the FES rate.



6. Will there be charges for deliveries and/or additional fees from SPP, and how will Western address them?

As identified in the AOS study, there will be some new charges/fees associated with SPP membership. The various applications of those charges/fees are addressed in the SPP tariff and/or policies. As Western negotiates membership with SPP, it will be working with our customers, and with their co-suppliers as appropriate, to identify proper application and payment of those charges and fees.

7. Will Western's primary mission be load serving and or ancillary services? Which market will Western participate in?

The primary mission of Western will not be affected by Western-UGP entry into an RTO. The negotiations with SPP must and will ensure that a transition into an RTO will enhance Western's mission by improving delivery of Federal power to Western-UGP's FES customers. Western-UGP will participate in the ancillary services market, but only with the resources committed to the WAPA Balancing Authority (BA) area and/or surplus energy not needed for FES load.

8. How was this decision influenced by DOE?

Western's recommendation to pursue formal negotiations with SPP was not the result of action initiated by DOE. Western-UGP and the other Integrated System (IS) owners have studied several forms of potential RTO participation since the 1990s. Beginning in 2011, the IS owners began to evaluate potential options of joining SPP, MISO, or continuing operations on a stand-alone basis. This latest analysis culminated in Western's current informal process. DOE supports Western's proposal to pursue formal negotiations with SPP concerning membership based on Western's initiative in this area.

9. After joining will Western have staff on the SPP Working groups and be active as a participant?

Yes. If Western joins SPP, Western expects to actively participate in SPP's working groups and committee structures, similar to Western's past participation in the Midcontinent Area Power Pool (MAPP).

10. Will this decision affect preference customers in multiple Regions?

This decision to move forward to pursue membership in SPP is a specific proposal for the Western-UGP region based on the results of the AOS study and the unique marketing and transmission footprint of the Western-UGP.



11. How would joining SPP affect hydropower generation? Do you envision that the hydro generators will be put on market dispatch or will they be dispatched only by the Corps?

The water releases for the six main-stem dams on the Missouri River are governed by the Missouri River Master Water Control Manual to service the authorized purposes provided for in the Flood Control Act of 1944. The U.S. Army Corps of Engineers (COE) will continue to regulate water releases for those non-power purposes and will continue to operate the plants similarly to how they are operated today. Generation in excess of FES load will be offered into the SPP markets. The mechanics of how this is accomplished will be negotiated with SPP to the satisfaction of both the COE and Western-UGP. The power marketed by Western-UGP from the Bureau of Reclamation power plants in Montana will not be in the SPP market footprint.

12. Does this study include the ramifications of Entergy leaving SPP?

Yes. The nodal analysis and AOS assumed that Entergy was in MISO.

13. Western plays a central part in the Emergency Restoration Plan (in accordance with the EOP-005 NERC standard) for the North Dakota region because the hydro resources are the black start units for the region. How does Western/SPP see the coordination happening with the commenter if Western joins SPP?

Western is committed to reliably operating the Bulk Electric System, including emergency restoration. If Western joins SPP, Western-UGP will work with MISO and SPP to ensure that emergency restoration, in North Dakota and all other impacted regions, will be properly coordinated.

14. Commenters expressed concern that joining SPP could impose inefficiencies for serving their integrated load by creating a new RTO market to RTO market seam. Concern was also expressed that the operational flexibility for maintaining service to their load using an Integrated Transmission System (ITS) network that includes FES customer transmission facilities may not be able to continue without fully addressing the physical and financial deliverability under two scenarios: 1) to SPP member load within the MISO footprint; and 2) MISO member load within the SPP footprint.

If Western-UGP joins SPP a new seam will not be created, but rather the current RTO market (MISO) to non-RTO market (IS) seam will be converted to a RTO market to RTO market seam (MISO/SPP seam). The current MISO/IS seam has its own inefficiencies, delivery constraints, and inequities. The new MISO/SPP market-to-market seam should improve the efficiencies and decrease the inequities compared to the existing RTO market to non-RTO market (MISO/IS) seam. Western believes that operational flexibilities, physical deliverability, and financial deliverability across the new MISO/SPP seam are, or will be, addressed fully in the



MISO/SPP Joint Operating Agreement. Western-UGP will work with SPP, as necessary, to address any outstanding issues with MISO and the impacted parties.

15. Please provide additional detail on the nodal analysis used in the AOS study to provide better understanding of market benefits, congestion and losses, and other assumptions used in the study.

Western posted the nodal analysis report, produced by the Brattle Group for the IS owners, on Western's website. It was edited to remove proprietary information related to the non-Western IS owners, but will provide some additional insights to this question.

16. How will scheduling and settlements be handled? What about preference customers' schedules?

SPP staff has provided preliminary verbal agreement, subject to membership approval, that the delivery of FES energy will remain the same. WAPA-UGP will still be responsible for delivery of its contractual obligation to each customer load. The mechanics of the delivery may change depending upon the location of the customer's load. For customers in either the Western-UGP eastern interconnection (WAUE) BA or in the SPP footprint, the process will come under SPP market rules that have yet to be negotiated. It is expected that schedules to the customers within the MISO footprint or in the Western-UGP western interconnection (WAUW) BA will not change.

17. Please provide additional details on the grandfathered agreements/carve-out exemptions assumed in the study, and will there be FERC filings of such exemptions?

Western requested a Federal Service Exemption from three specific impacts of joining SPP for Western-UGP's statutory marketing plan deliveries. These are, 1) SPP Integrated Marketplace congestion charges, 2) marginal loss charges, and 3) the regional cost allocation charges from schedule 11 of the SPP tariff. While Western has received preliminary support from SPP for these exemptions, the decision is subject to SPP membership approval. The basis for this request stems from Section 1232 of the Energy Policy Act of 2005 as well as Western's organic statutes, generally referred to as Federal Reclamation Law, along with Western's marketing plans and rate development requirements promulgated under those laws and regulations. These statutes include, but are not limited to the Fort Peck Project Act of 1938, the Reclamation Project Act of 1939, the Flood Control Act of 1944, and the Department of Energy Organization Act of 1977. The exact details of how this will be implemented under the SPP tariff are not finalized at this time. Western anticipates SPP filings with FERC to implement these Federal Service Exemptions.



18. How were the resource adequacy requirements evaluated in the decision process and what are the requirements for SPP?

SPP completes a resource adequacy study of each entity requesting membership as a Transmission Owning member. This study identifies if the prospective member has sufficient capacity to cover its load plus operating reserves. If an entity is found deficient it must acquire the appropriate resources before becoming a member. In the decision process it was determined that the Western-UGP market plan provided adequate capacity for its load obligation while still providing enough capacity for operational and planning reserves. The reserves currently obligated to the WAUE BA will be used to meet the SPP BA requirements.

19. Did you include SPP transmission expansion costs in the analysis, and what assurance does Western have that it will gain SPP cost sharing for the planned 345-kV transmission line additions? Commenter believes that the SPP Regional State Committee must review and approve the IS cost shared facilities. Is it assumed that the Western preference customers would be unaffected by SPP transmission cost-sharing?

The study addressed transmission expansion costs assessed to the non-Western IS owners from the RTOs for their regional projects and also transmission expansion costs assessed to the existing RTO members from the IS owners for eligible regionally shared projects within the IS. SPP completed an Integration Study of the IS transmission system on October 16, 2013, and determined that the “need by dates” for several IS expansions including the “West 345-kV Loop” and additional 345-kV facilities in western North Dakota are needed after Western-UGP’s proposed integration date of October 2015 and therefore meet SPP’s criteria for cost sharing. While Western has received preliminary support from SPP for cost sharing, the decision is subject to the established SPP staff review and stakeholder approval processes. Western is seeking an exemption from assessment of regional transmission expansion costs under its requested Federal Service Exemption and therefore assumed it would not be assessed such associated SPP Schedule 11 charges on its preference customer deliveries on the IS and outside of SPP from its Federal resources.

20. Please clarify which NERC functions would be transferred from Western to SPP: Reliability Coordinator, Balancing Authority, Transmission Service Provider, and Planning Authority?

The functions transferring from Western-UGP to SPP will be the Transmission Service Provider for non-grandfathered service across the eastern interconnection part of the IS and the Western-UGP eastern interconnection BA (WAUE) will become part of the SPP BA. Depending on the method Western and SPP agree to use to maintain a common rate across both east and west interconnection IS facilities, SPP may be the Transmission Service Provider for non-grandfathered service across all IS facilities. NERC Functions that will

transfer from others to SPP include: Reliability Coordinator, from MISO to SPP and Planning Coordinator, from MAPP to SPP.

21. Do you see any reason that preference customers would not be able to continue to receive fixed schedule deliveries?

Preference customers currently receiving fixed schedule deliveries can continue to receive those fixed schedule deliveries as provided for in their FES contracts.

22. What is Western's exit strategy from MAPP? When will Western be in a position to say more about the exit approach?

MAPP is an association of electric utilities and other electric industry participants operating in all or parts of Iowa, Minnesota, Montana, North Dakota, and South Dakota. The MAPP organization has three primary functions: regional transmission planning, reliability planning and coordination, and transmission tariff services coordination. MAPP obtains personnel services from MAPPCOR. MAPPCOR is a not-for-profit cooperative founded in 1990 that provides power transmission and reliability services. Although a significant focus of MAPPCOR is the services it provides to MAPP, it does provide services to other entities. Western-UGP is a member of both MAPP and MAPPCOR. Western-UGP utilizes MAPP to fulfill its responsibilities for regional transmission planning, reliability planning and coordination, and transmission tariff services coordination. If Western-UGP joins SPP, SPP will provide these functions. Western-UGP's membership in MAPP is governed by the Second Restated MAPP Agreement. Should Western-UGP decide to exit from MAPP membership, the Second Restated MAPP Agreement dictates Western-UGP's exit strategy. Both MAPP and MAPPCOR are aware of the potential of Western-UGP exiting if Western decides to pursue SPP membership. Any exit from MAPP would be timed following SPP's taking over responsibilities currently provided by MAPP.

23. Who will pick up the cost of the Federal Service Exemption on congestion and losses? Will it be borne by the IS region or spread across the entire SPP footprint?

Western is requesting the congestion and losses associated with the Federal Service Exemption be allocated to the entire SPP Region as opposed to the IS zone. While the concept has yet to be put through the SPP stakeholder process, SPP staff has provided preliminary indication that this was acceptable. FERC has yet to directly rule on a Federal Service Exemption; however in Docket No. ER13-2078 FERC did determine uplift costs associated with congestion and losses under grandfather agreements (identified prior to October 18, 2012, the SPP Integrated Marketplace filing) were to be made to the entire SPP Region as opposed to a specific zone.



24. Do you see the transition into SPP having any impact on a pseudo-tie of non-IS generation into the Western BA?

The only impact Western can visualize at this time is that the pseudo-tie will no longer be to the Western BA, but to the SPP BA.

25. Will Western enter SPP separate from IS?

Yes. It is expected that each IS owner will enter into its own membership agreement with SPP.

26. Concern by commenter regarding who benefits and who pays for power purchases and transmission costs. Will some areas pay more while some areas pay less? Will there be different cost based on locations? How are the South Dakota customers going to be affected?

Western-UGP regularly purchases energy at certain periods of time to meet its firm power obligations to its preference customers. Those purchased energy costs are included as a part of the FES rate that all Western-UGP preference customers pay. Western-UGP does not expect that to change with SPP membership. Currently, transmission costs for the preference customers are different for each customer depending on their location in the marketing footprint and if third-party transmission is needed to receive their Federal hydropower. This does cause some customers to effectively pay more or less than other customers for transmission. With membership in SPP, there will be new allocation rules for transmission costs and it will affect each customer differently based on their location on the transmission grid. Western has estimated those costs in the AOS study for the delivery of Federal hydropower. However each customer should be working with their co-supplier to understand the impact to the cost of delivery of their co-supplied generation.

27. Many customers emphasized that Western needs to maintain communications with its members and provide more regionalized information on how the transition to an RTO will affect the customers at a localized level.

As Western-UGP negotiates toward membership with SPP it will be working with customers and their co-suppliers as appropriate, to coordinate changes necessary to ensure a seamless transition into SPP. Many details will emerge during negotiations, and Western will continue to provide information, data and details to customers. Please continue to visit Western's website to receive updates at:

<http://www.wapa.gov/ugp/PowerMarketing/AlternateOperationsStudy/AOS.htm>



28. Do you anticipate an SPP drive-in charge?

Western is not aware of any SPP drive-in charges.

29. In the cost-benefit analysis, there is a statement that only the WAPA system impacts are presented. However, it appears that the numbers for transmission expansion cost-sharing reflect the benefits to both the WAPA and non-WAPA IS parties. How do we know which parts of the analysis are restricted to showing only WAPA impacts, and which parts show impacts on all of the IS parties?

The report displays only Western-UGP data and impacts. The non-Western data and impacts are not displayed.

30. Has there been a cost allocation study on withdrawing?

Western is aware that there are costs associated with withdrawing from an RTO. Western has reviewed the SPP withdrawal provisions but has not done a specific study on those costs. The main driver is tied to post-withdrawal cost sharing of regional transmission expansion projects incurred as a member. Western views its proposal to join SPP as a long-term commitment, but Western has asked for an exemption from regional transmission expansion costs that would mitigate most of its exposure to these costs.

31. How would TIP projects be handled with SPP, how would Western keep costs separate?

The Transmission Infrastructure Program (TIP) is a separately authorized and distinct program in Western. TIP has accounting structures in place to keep TIP costs separate from other Western programs/projects. If Western-UGP joins SPP, the TIP office will continue to seek partnerships to develop and fund transmission infrastructure that delivers renewable energy to the market. Any projects that may be developed in the Western-UGP footprint would have to meet SPP requirements for interconnection and be subject to SPP cost allocation rules.