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Upper Great Plains Region
Western Area Power Administration
2900 4th Avenue North
Billings, MT 59101-1266

Via email to: AOS@wapa.gov

Re: Comment on the November 1, 2013 Federal Register Notice of Western Area Power Administration Recommendation to Pursue Regional Transmission Organization Membership

Dear Western Area Power Administration:

Pursuant to the November 1, 2013 Federal Register *“Notice of Western Area Power Administration Recommendation to Pursue Regional Transmission Organization Membership”* (“Notice”), Xcel Energy Services Inc. (“XES”) hereby submits its comments on the Western Area Power Authority – Upper Great Plains Region (“WAPA”) proposed recommendation to join the Southwest Power Pool, Inc. (“SPP”). The XES comments are submitted on behalf of the Xcel Energy Operating Companies.

Xcel Energy Operating Companies are members of two Regional Transmission Organizations (“RTO”) and our membership in both has brought value to our customers. We support WAPA’s decision to move towards joining an RTO and believe that the members of the Integrated Transmission System (“IS”) will benefit from this decision as will WAPA’s preference customers.

XES submits these comments to raise significant concerns with the Recommendation in the Alternative Operations Study (“AOS”). As detailed below SPP’s governance structure establishes procedures for the allocation of costs which have not yet been met. Because of this we encourage WAPA to focus its analysis on the significant energy trading benefits identified in the AOS instead of potential cost sharing benefits of already planned transmission expansions.

I. Description of Xcel Energy Services Inc.

XES is the service company subsidiary of Xcel Energy Inc. ("Xcel Energy"), a Minnesota corporation and holding company organized under the Public Utility Holding Company Act of 2005. XES performs a variety of administrative and general services for its four utility operating company affiliates, including Southwestern Public Service Company ("SPS"), Northern States Power Company-Minnesota ("NSPM"), Northern States Power Company-Wisconsin ("NSPW"), and Public Service Company of Colorado ("PSCo").

SPS is a New Mexico corporation, with its corporate headquarters in Amarillo, Texas, and is a vertically integrated electric utility that, *inter alia*, provides generation, transmission, distribution, and the sale of electricity. SPS is among the largest transmission-owning members of SPP, with a 2012 peak load of approximately 5,265 MW. SPS has been a transmission-owning member of the SPP since 1973 and made its transmission facilities available for service under the SPP regional OATT in 2000. Transmission service over facilities developed and owned by SPS is provided pursuant to the SPP OATT.

NSPM is a public utility that operates in Minnesota, North Dakota, and South Dakota. NSPW is a Wisconsin corporation serving customers in the state of Wisconsin and Michigan. NSPM and NSPW, jointly referred to as the NSP Companies, operate as a single integrated system and are transmission-owning members of the Midcontinent Independent System Operator, Inc. ("MISO"). The NSP Companies are vertically integrated utilities that, *inter alia*, provide generation, transmission, distribution, and the sale of electricity. The NSP Companies are among the largest transmission-owning members of the MISO, with a 2012 peak load of approximately 9,475 MW and approximately 7,200 miles of transmission lines. Transmission service over facilities developed and owned by the NSP Companies is provided pursuant to an Open Access Transmission Tariff ("OATT") under MISO.

PSCo is a vertically integrated electric public utility operating in Colorado that, *inter alia*, provides generation, transmission, distribution, and sale of electricity and gas. PSCo is part of the Western Interconnection. The system peak demand for PSCo in 2012 was 6,689 MW. PSCo is interconnected with the WAPA WACM system in multiple locations. PSCo is also party to a grandfathered transmission service agreement with SPS for service over the Lamar Tie. Under the SPP tariff, PSCo is subject to certain SPP transmission charges related to this grandfathered service.

According to the Notice, WAPA evaluated two options for RTO membership; with one option being membership in SPP and the other membership in MISO. XES's affiliates SPS and the NSP Companies (and potentially PSCo) would be directly affected by a decision of WAPA to join either SPP or MISO.

II. Comments

XES supports the recommendation that WAPA join an RTO and notes that the AOS identified numerous benefits of joining an RTO, with the join SPP option as having the greatest benefit to the IS. For instance, the study identified RTO Trade Benefits ranging between \$2.4 and \$7.5 million dollars per year in the out years if the IS joined SPP. The Multi-Criteria Decision Analysis also identified that joining SPP is a lower risk option than the stand alone option. XES encourages WAPA to maintain its focus on relieving operational issues and increasing optimization of short term energy sales in their decision making process.

While XES strongly supports WAPA's efforts to evaluate its RTO options, XES does have reservations about the Recommendation due to the factors identified as driving WAPA's interest in joining SPP. The Recommendation indicates that the benefits of joining SPP are based primarily on receipt of certain transmission cost-allocation benefits that have not yet been subject to review and approval by SPP stakeholders. Specifically, it is the position of XES that the proposal to cost share already planned projects must be reviewed and approved by the SPP Regional State Committee ("RSC"), which has primary responsibility for matters of transmission cost allocation.

The AOS indicates that two 345 kV lines in North Dakota have been identified by WAPA in the AOS as receiving "favorable" cost allocation. This benefit serves as the primary reason for the Recommendation to join SPP:

The most recent study, the IS Business Model, shows that the most favorable cost-benefit is with the Join SPP option, regardless of the sensitivity applied. Much of this benefit to SPP is derived from the ability to cost share upcoming IS transmission expansion projects if the Join SPP option is realized by the fall of 2015, which is prior to those projects "need by" date. In the MISO and Stand Alone options there is no opportunity for cost sharing on these projects.¹

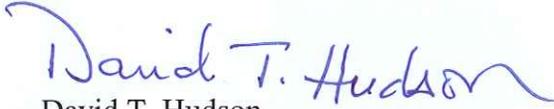
The "need by" date concept would result in significant and unexpected cost shifts to other SPP members (including SPS), raising questions about whether this proposal is in the best interest of existing SPP members and customers. Also, the details of WAPA's exemption from RTO cost sharing that is referenced in the Recommendation are unclear and merit further elaboration and analysis. This additional analysis should be conducted in an open and transparent stakeholder process.

¹ Alternative Operations Study Recommendation, November 1, 2013, page 35

While XES understands that SPP staff must have flexibility to discuss proposed membership options with potential SPP RTO entrants, SPS believes that under the SPP Bylaws this "need by" date proposal and any exemption from cost sharing afforded WAPA must be approved by the RSC²; to date, SPP's proposal has not yet been brought forward to the RSC for debate and approval. This Recommendation would also have to be approved by the independent SPP Board and by FERC. To allow for cost sharing, the specific transmission projects will have to be approved by the SPP Board and SPP would have to issue a Notice to Construct. Because of the potential cost shift and lack of stakeholder input into this process at SPP, the Recommendation on which WAPA seeks comment will prove to be controversial.

XES and Xcel Energy Operating Companies look forward to working collaboratively with WAPA and SPP on these issues and other issues with the goal of integrating WAPA into SPP in a manner consistent with the best interests of all parties involved. If you have questions regarding this letter or any other issue please feel free to contact me.

Sincerely,


David T. Hudson

² Article I, Section 2, Southwest Power Pool, Regional State Committee Bylaws