

E-ALERT | Energy

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FERC APPROVES ENHANCED WHOLESALE ELECTRICITY MARKET FOR THE SOUTHWEST POWER POOL

At its recent public meeting, the FERC approved an enhanced “Day 2” design for the Southwest Power Pool (SPP), the organized wholesale electricity market that operates in nine states in the south central region of the U.S. SPP’s new market features should improve operational efficiency and reliability, provide a level playing field for all participants, offer an improved price basis for bilateral contracts and hedging instruments, and enhance the integration of variable generation facilities in a region that is rich in wind resources.

SPP’s enhanced market will be of interest to those that buy and sell electricity or hold interests in electric generation or transmission assets in or near SPP.

SPP is a FERC-jurisdictional Regional Transmission Organization (RTO) that operates a regional transmission grid, including dispatching generating units and administering markets designed to procure resources needed to keep the electricity system in balance on a daily basis. SPP does not own generation or transmission facilities. Facilities are owned by traditional utilities, independent power producers, independent transmission companies, rural electric cooperatives, and municipal utilities.

SPP’s improved market design is known as a “Day 2” market because its significant feature is the addition of a “day-ahead market” for scheduling generators. Just before each hour during which the system is dispatched, SPP secures the generation needed to keep the system in balance with demand in a “real time” market. The new day-ahead market, which is a financially binding auction market, secures generation for each hour of dispatch for the next day. The next day, the real-time auction market makes adjustments to the day-ahead market commitments in light of more current system conditions. All of the other RTOs in the U.S. now operate Day 2 markets. Securing commitments from generators in SPP a day in advance should improve operational efficiencies and reliability and provide valuable price signals to market participants, just as Day 2 markets have in other RTOs.

In addition to the day-ahead market, SPP’s enhanced market includes the following important features:

- Pricing based on marginal costs and the location of load and resources. Known as “locational marginal pricing,” this will reflect the true value of delivered energy and provide an efficient price signal for bilateral contracts and for new entry.
- Single-clearing price auctions in the day-ahead, real-time, and other energy markets that will incentivize participants to offer their resources.
- Financial instruments that allow participants to hedge against the costs of grid congestion.
- Demand response resources participate on an equal footing with all other resources.

- SPP will be solely responsible for integrating resource plans in advance and ensuring reliable operations over all grid facilities under its control. That responsibility is now scattered over sixteen separate entities. This consolidation will improve the integration of wind-powered resources and improve market efficiency.
- More efficient procurement of operating reserves and other generation-related services needed for system balance and reliability.
- Robust market monitoring and mitigation to discourage anticompetitive behavior.

SPP's Day 2 market is scheduled to start-up on March 1, 2014, subject to a number of revisions and compliance filings with FERC and the approval of several state regulatory commissions.

FERC's order is available [here](#).

If you have any questions concerning the material discussed in this client alert, please contact the following members of our energy group:

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|-------------------------|--------------|--|
| William Massey | 202.662.5322 | wmassey@cov.com |
| Robert Fleishman | 202.662.5523 | rfleishman@cov.com |
| Bud Earley | 202.662.5434 | bearley@cov.com |

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