February 12, 2015

Senator Robert Olson
Chairman, Senate Utilities Committee
Room 236-E, State Capitol Building
300 SW Tenth Avenue
Topeka, Kansas 66612-1504

Dear Senator Olson:

Thank you for the invitation for Southwest Power Pool (SPP) to appear before the Kansas Senate Utilities Committee on February 4, 2015. Mr. Carl Monroe, our Executive Vice President and Chief Operating Officer, was pleased to provide you with a briefing on the role of SPP as well as a summary on the results of our study of the Environmental Protection Agency's proposed Clean Power Plan on the reliability impact of the electric grid.

Senator Knox had requested that we follow up to the question he posed regarding the cost for the services SPP provided to an average residential customer in 2005, as opposed to 2015. The slide we presented at the meeting indicated that the current cost is 67.5 cents for every $100 of a residential utility bill. That number has recently been updated and is now 64 cents. That cost in 2005 was 22 cents. He also noted that the number of employees had grown from 131 to 570 over the past decade.

While the costs and staff have increased, so have the savings to customers as well as the services we provide. SPP saves the average residential customer $79 per year. Put another way, an average $100 monthly residential utility bill today would be $106.61 without the services SPP provides to our member companies.

Additionally, our services have dramatically changed over the last ten years as a result of member company requests, federal legislation and policy changes at the Federal Energy Regulatory Commission and additional reliability standards requirements from the North American Electric Reliability Corporation.

In 2005, our services were confined primarily to reliability coordination. The Energy Policy Act of 2005, signed into law by President Bush, dramatically changed our responsibilities for reliability standards as well as compliance and enforcement.

Also, since 2005, we have added the Energy Imbalance Service (EIS) Market, training for member companies, regional transmission planning, consolidated 16 independent balancing authorities into one regional consolidated balancing authority, and most recently added the new Integrated Marketplace.

While all of the services listed above have contributed to increased costs and staff, a large driver was the result of building and operating the Integrated Marketplace, which added a number of markets to SPP's existing EIS Market. With the launch of the Integrated Marketplace, SPP now operates energy and transmission markets totaling nearly $12 billion annually. Based on the data from the first six months of the new Integrated Marketplace, SPP's energy markets will create approximately $310 million in customer savings per year.

As implemented, the Integrated Marketplace and the consolidation of 16 independent balancing authorities to one operated by SPP, excess capacity online and in use has decreased from 6500MW to 2500MW, substantially reducing cost by allowing fewer generators to operate to maintain reliability.

The Integrated Marketplace and the Consolidated Balancing Authority alone will generate far more savings to the end user than all the cost for all the services SPP provides. In fact, overall we provide our member companies and ultimately the end user an estimated 11 to 1 return on investment. These cost savings do not reflect the value of avoided reliability problems such as the 2003 Northeast Blackout, which had an estimated $4-$10 billion economic impact.

Now that we have completed building and implementing the Integrated Marketplace, we do not anticipate any additional growth in our staff. Additionally, the cost per member company and ultimately to the end user will go down as we increase our footprint to include all or parts of Montana, North Dakota, South Dakota, Minnesota, Iowa and Wisconsin.

Thank you for giving me the opportunity to clear up any misunderstanding regarding our cost and staffing requirements. If I can provide you with additional information, please let me know.

Sincerely,

Mike Ross
Senior Vice President

cc: Senator Forrest Knox
Heather O'Hara, Principal Research Analyst