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October 5, 2011

Via Overnight and Electronic Mail

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Room 3000, Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460
(jackson.lisa@epa.gov)

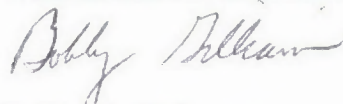
Re: Request of Southwestern Electric Power Company (SWEPCO) for
Reconsideration and for Stay of *Federal Implementation Plans to Reduce
Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP
Approvals*, 76 Fed. Reg. 48208 (August 8, 2011); Docket No. EPA-HQ-OAR-
2009-0491

Dear Ms. Jackson:

Please find enclosed the Request for Reconsideration and Stay to the U.S. Environmental
Protection Agency ("EPA") submitted on behalf of Southwestern Electric Power
Company (SWEPCO), an electric public utility in the above captioned docket.

Respectfully Submitted,

WILKINSON CARMODY & GILLIAM



Bobby S. Gilliam

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October 5, 2011

Via Overnight and Electronic Mail

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Room 3000, Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460
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Re: Request of Southwestern Electric Power Company (SWEPCO) for Reconsideration and for Stay of *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, 76 Fed. Reg. 48208 (August 8, 2011); Docket No. EPA-HQ-OAR-2009-0491

Dear Administrator Jackson:

We are submitting this Request for Reconsideration and Stay to the U.S. Environmental Protection Agency ("EPA" and/or "agency") on behalf of Southwestern Electric Power Company (SWEPCO), an electric public utility that has and continues to serve Northwest Louisiana, East Texas, and Western Arkansas. SWEPCO has carefully reviewed the final rule entitled *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, published at 76 Fed. Reg. 48208 (August 8, 2011), (hereinafter referred to as the "Transport Rule") including the material changes to the rule between its original proposal and the final version. SWEPCO has reviewed particularly the significant issues concerning the revision of state budgets based on new modeling which contains erroneous assumptions. The new proposed rule, based on this modeling, adopts an inflexible trading system that combines new and significantly different reductions in emissions with an implementation date that is less than 6 months from the public release of the rule. These mandated reductions in such a short time period without an adequate means to comply will result in immediate and irreparable harm to states, utilities, such as SWEPCO, and particularly, to all of SWEPCO's ratepayers. In light of the foregoing, SWEPCO respectfully requests reconsideration and stay of the Transport Rule.

I. SWEPCO Adopts and Joins in the Request for Reconsideration and Stay by American Electric Power and the Louisiana Public Service Commission

In submitting this Request for Reconsideration and Stay, SWEPCO also notes that it is an operating company of American Electric Power System (collectively referred to herein as

“AEP”). SWEPCO hereby adopts the comments of AEP, in its Request for Reconsideration and Stay, such that there is no need to repeat all of the significant issues raised in the Request submitted by AEP. However, while adopting and incorporating the comments and material issues raised in the AEP Request for Reconsideration and Stay, SWEPCO as an electric public utility, also submits these comments, noting the specific negative impacts upon SWEPCO and its ratepayers, resulting from the implementation of the Transport Rule on the terms and within the timeframe currently proposed. This Request will require a specific discussion of SWEPCO’s generating and transmission assets and the adverse effects as to reliability and costs resulting from the Transport Rule, as proposed.

SWEPCO also notes that the Louisiana Public Service Commission (LPSC), an entity established directly by Louisiana Constitution in Article VI, Sections 3 through 9, is also filing a separate Request for Reconsideration and Stay of the Transport Rule. The LPSC took this significant action, due to the material adverse impacts upon the State of Louisiana, the public utilities in Louisiana, and particularly, the ratepayers throughout Louisiana. SWEPCO also supports the Request for Reconsideration and Stay by the LPSC and the material issues and impacts discussed therein. However, SWEPCO files its Request for Reconsideration and Stay, in order to set forth the specific issues resulting from the implementation of the Transport Rule as proposed, including but not limited to the need for analysis of the individual electric generating units, as well as and the ability to evaluate local transmission constraints in order to fully evaluate all reliability, costs and other impacts upon SWEPCO and its ratepayers.

In addition to faulty modeling, the EPA’s Integrated Planning Model (IPM) does not incorporate or include this type of analysis, which is essential to determine the actual impacts upon ratepayers, who are entitled to and are reliant upon reliable and low cost service.

II. Southwestern Electric Power Company, an Electric Public Utility with an Obligation to Provide Reliable Service at Reasonable Costs, Requests EPA to Reconsider and Stay its Transport Rule:

SWEPCO and its predecessors have served ratepayers throughout Northwest Louisiana, East Texas and Northwest Arkansas for about a century. SWEPCO’s corporate headquarters are located in Shreveport, Louisiana, with SWEPCO serving rural and metropolitan customers throughout the tri-state region. Some of the metropolitan areas include Shreveport and Bossier City in Northwest Louisiana, including Barksdale Air Force Base; Longview, Marshall and Texarkana in East Texas, including US Steel; and Texarkana and Fayetteville in Arkansas, including the University of Arkansas. In addition, SWEPCO provides service to eight wholesale customers, including several rural electric cooperatives and the city of Bentonville, Arkansas, which houses Wal-Mart’s world headquarters.

SWEPCO is an electric public utility that has consistently provided reliable service to its ratepayers, while maintaining some of the lowest rates in the region. In order to

accomplish these objectives, SWEPCO uses a diversified fuel mix, so as to ensure continued reliability and low rates, including natural gas, Wyoming low-sulfur coal, and locally-mined lignite. The most recent addition to its generating fleet is the J. Lamar Stall Unit at Arsenal Hill in Shreveport, a 508 MW combined cycle, natural gas unit. SWEPCO's solid fuel units are primarily baseload units, with the Stall Unit at Arsenal Hill being an example of an intermediate unit, and with older, higher-cost gas units serving as peaking units. All of SWEPCO's capacity was put to use during the summer of 2011, with SWEPCO reaching an all-time new peak of 5,543 MW on August 3rd. Additional high demands were set on August 2nd with 5,457 MW, and on August 1st with 5,370 MW. All of these peak loads exceeded the previous record of 4,994 MW set last summer on August 11, 2010. During this past summer, the load exceeded projections by over 7%. Thus, demands on SWEPCO's systems have been steadily increasing due to high demand during hot summers.

SWEPCO, as an electric public utility, is regulated by the respective public service commissions in each of the three states in which it provides service, including the Louisiana Public Service Commission (LPSC), Arkansas Public Service Commission (APSC) and the Public Utility Commission of Texas (PUCT). All of the respective commissions are charged with the responsibility of regulating service, reliability, costs, and related issues for the benefit of ratepayers. Significantly, SWEPCO, as an electric public utility has the obligation to serve, in each of the respective states. This obligation requires careful long term planning and the consideration of reliability issues, reserve requirements, transmission capacity and certainly, costs. The reliable supply of electricity is critical to the public health and to the economy of each of SWEPCO's states.

In order to consider and fully evaluate and address these issues in terms of the Transport Rule, the individual performance of each and every affected electric generation unit and any specific transmission constraints must be carefully and accurately considered and evaluated. However, system analysis has not been done, as there has not been sufficient time granted to fully analyze and address these critical issues. This lack of any meaningful analysis has also resulted in there being significant errors in the EPA's IPM, which will result in substantial and material adverse impacts. Consequently, SWEPCO requests reconsideration and stay of the Transport Rule, while these significant errors and issues, which materially and adversely affect ratepayers throughout the three state region, be fully analyzed and assessed.

SWEPCO also specifically requests that the EPA stay its anticipated action in removing allowances from the existing Clean Air Interstate Rule (CAIR) allowance accounts, so that during any period for reconsideration or judicial review, the omission reductions that have been and are being made can continue, so as to contribute to the improved air quality across the region. SWEPCO respectfully requests and urges the EPA not to dismantle the successful existing compliance structure, without providing SWEPCO and others the opportunity to seek the needed relief from the Transport Rule, which includes unreasonable reduction demands, and an inflexible compliance schedule, the impacts of which have not been correctly and fully analyzed and determined by the agency.

III. the EPA's Modeling is Fundamentally Flawed and SWEPCO Had No Notice or Opportunity to Comment on Key Errors:

In developing the proposed Transport Rule's redesign of CAIR's cap and trade system, EPA followed a process based upon the complex IPM modeling of the US Electric Power Sector. (The modeling process is discussed in more detail in the AEP Request for Reconsideration and Stay (see pp. 3-5)). The EPA then identified the proportion of each state's contributing emissions, which it projected to "contribute to" or "interfere with" the maintenance compliance by another state. Under the Transport Rule, states were included in one or more of three separate programs to reduce their annual SO₂, NO_x, and/or seasonal NO_x emissions in order to help down-wind states achieve compliance. The proposed rule also assigned annual emission budgets to each state for each pollutant and allocated emission allowances to sources within each state for the years 2012 and 2014. The 2012 emission reductions were intended to reflect continuous operation of installed controls, limited upgrades of combustion controls (for NO_x) and limited fuel switching (for SO₂). After the publication of the proposed rule in the Federal Register, the EPA provided only sixty days to review over 250 pages of regulatory language and volumes of supporting documentation and detailed modeling information. There were significant errors noted in the modeling inputs and in the various assumptions, some of which directly affect SWEPCO.

Thereafter, the EPA issued three separate notices with the last being in January 2011, which included IPM model runs still based upon incorrect inputs, examining different allocation methodologies, and compliance scenarios. Subsequently, upon receiving comments, EPA updated its models and generated scenarios that had never before been provided for public review, so as to achieve even more significant reductions in SO₂ and NO_x emissions and then proposed to expand the program into six other states for ozone-season NO_x. EPA also altered the programs that would be effective in certain states, limiting the requirements to ozone-season only reductions in Louisiana, but imposing annual SO₂ and NO_x reduction requirements that were never previously announced in Texas. All of EPA's actions affecting the regional states are significant for SWEPCO, as all generation units owned by SWEPCO, whether located in Louisiana, Arkansas or Texas, are needed to serve SWEPCO ratepayers across all three state jurisdictions.

The level of reduction required to be achieved in various states, including Arkansas, Louisiana and Texas changed materially from the proposed rule to the final rule. (See chart entitled *Comparison of Proposed to Final 2012 Budgets in AEP States* on p. 6 of AEP Request for Reconsideration and Stay)

The Transport Rule's proposed state reductions, based upon EPA's incorrect modeling, evaluated Louisiana's 2010 NO_x emissions based upon a three-year average at 23,172 (tons of NO_x), with an emission budget in 2012 and 2013 at 13,432, with emissions under budget of 9,740 for a required percentage change of -42%. The estimated impact

of the NOx seasonal-ozone reductions for Louisiana utilities are preliminarily estimated¹ as follows:

	3-Year Average NOx	CSAPR			
		Allocation	Percent Difference	Deficit with CSAPR	
				2012	2014
CLECO	2,760.9	1,534.2	-44.4%	(1,226.7)	(1,226.7)
ELL	6,516.0	2,609.0	-60.0%	(3,907.0)	(3,907.0)
EGSL	2,925.3	1,583.0	-45.9%	(1,342.3)	(1,342.3)
ENO	896.5	592.0	-34.0%	(304.5)	(304.5)
SWEPCO	1,150.0	630.0	-45.2%	(520.0)	(520.0)
Muni	1,637.5	806.8	-50.7%	(830.7)	(830.7)
Big Cajun 2	5,001.7	2,842.0	-43.2%	(2,159.7)	(2,159.7)
IPP	281.6	415.0	47.4%	133.4	133.4
Cogen	1,864.5	2,018.0	8.2%	153.5	153.5
Total	23,034.0	13,030.0	-43.4%	(10,004.0)	(10,004.0)

The methodology used to develop the state-by-state emission budgets is fundamentally flawed, which in turn resulted in flawed unit-by-unit allocations. SWEPCO had no notice or opportunity to comment on these key errors. For example:

1. The underlying modeling performed by EPA constrained the operation of classes of generation that are traditionally used to support periods of peak demand (that routinely occur during the ozone season, with the SWEPCO units being discussed below);
2. The model projects significant changes in coal supplies in 2012, even though most of the generating units in the Transport Rule region, including SWEPCO, have made contractual commitments to existing fuel suppliers for 2012 and beyond, so as to ensure low cost fuel and transportation;
3. The cost assumptions used in the underlying model were understated; and
4. The level of projected generation in individual states, including Louisiana, is well below levels generated in 2010. If generation were to be constrained under this false assumption, the constrained supply would affect the public health during

¹ The data set forth in the chart was presented by LPSC Staff at the September 7, 2011 Business and Executive Meeting of the LPSC. Staff also noted that Louisiana would likely run out of emission credits around July 4th, 2012 (with the ozone season running through the end of September) if the Transport Rule, as proposed, takes effect. This would result in 80 days without credits, resulting in an obvious inability to comply.

warm summer months and would further impede economic recovery and job growth.

5. As a result of the flawed model, the NO_x seasonal-ozone budget for Louisiana is significantly smaller than required for reliable electrical system operation.

EPA's modeling for unit operations is not consistent with either historical operation or expected operation under the Transport Rule requirements. As an example, within Louisiana there is over 9200 MW of generation that is assumed not to run within the Transport Rule policy case in 2012. However, most of this generation was operating during 2010 and was responsible for 26% of ozone season heat input and 43% of ozone season emissions. Many of these units are critical for grid reliability and are must-run units. Consequently, EPA has dramatically underestimated the generation requirements from within the state of Louisiana, as well as NO_x emissions.

The model includes other erroneous operating assumptions under the EPA's dispatch modeling that are specific to SWEPCO units. The EPA model assumes that the following SWEPCO Louisiana units will not run: Lieberman Units 1 through 4 and Arsenal Hill 5. These are necessary and essential peaking units, which in fact operated in 2010 and in 2011. Further, the EPA model assumes the following Texas units will not run: Knox Lee Units 2, 3, 4, and 5; Wilkes Unit 1; and Lone Star Unit 1. In fact, all of these units operated in the modeling period of 2010, as well as in the load-critical summer of 2011. Moreover, these units are projected to run again in 2012 to meet load and reliability requirements.

EPA's model also made significant erroneous assumptions concerning fuel. The model outputs incorrectly assume that Lieberman Units 3 and 4, Arsenal Hill 5, Knox Lee 4, and Wilkes 1 are fueled by oil. In fact, Arsenal Hill 5 and Knox Lee 4 are *incapable* of burning fuel oil. While some of the other units have the ability to burn oil, these units are fueled by natural gas and have been fueled by natural gas for years.

The EPA model assumed that SWEPCO will not operate the eleven (11) units identified above, representing approximately 1000 MW of capacity, which were excluded from the study. Thus, EPA must also have assumed that SWEPCO could somehow displace 1000 MW generating capacity for the 10 units by purchasing from other sources. While SWEPCO should be able to confirm a portion of the requested service by modifying redispatch requirements, some redispatch requirements would require the assistance of and contacts with unaffiliated third parties, who are under no obligation whatsoever to lend assistance to SWEPCO, a public utility with an obligation to serve. In addition, there is no study demonstrating transmission capacity will be available for delivery of this supply to SWEPCO's load or the effect transmission constraints may have on ratepayer costs.

The EPA's methodology also only allocates additional allowances to "planned" units that commence operations between January 2010 and January 2012, thus, ignoring units that will commence operations in 2012 or 2013. For example, AEP is constructing a large

ultra-supercritical coal-fired power plant, the Turk Plant in Arkansas, which is anticipated to commence operation in October 2012. Turk should have been included in the “planned” new unit allocation. Turk’s permitted NOx emissions alone are over three times the size of the total new unit set-aside, and it is expected to run as a baseload unit during ozone season, making the current set-aside grossly inadequate. Also, a new unit at the Plum Point Power Station is being constructed in Arkansas, which commenced operation during 2011, and should have been but was not included in the calculation of additional new source set-aside. In light of these under-allocations, the two newest and most efficient generators within the state of Arkansas are at risk of exceeding assurance levels due to an insufficient allocation of allowances. Thus, SWEPCO requests, as a part of the requested relief, that the allocations be increased in the affected states in which SWEPCO operates, in addition to the other relief sought herein.

There has not been sufficient time granted to conduct the precise studies necessary to determine the magnitude of the impact of the Transport Rule upon SWEPCO and its ratepayers. Thus, the modeling is substantially flawed, with the SWEPCO specific omissions and errors noted above being material. Respectfully, this alone should result in the reconsideration and stay of the effect of the Transport Rule, pending correction of the errors, followed by further study and analysis, with a request to stay the rule as it applies to Louisiana, Arkansas and Texas.

IV. SWEPCO Must Consider Compliance Issues in the Context of a Reasonable Time Frame, Meeting Reliability Requirements and the Significant Impacts Upon Its Ratepayers:

SWEPCO is a member of the Southwest Power Pool (SPP), a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO). On September 20, 2011, the SPP corresponded with you as the Administrator of the EPA and advised that the SPP is “concerned that the Environmental Protection Agency finalized the Cross State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region.”² (See Exhibit “A”)

In expressing its reliability concerns, Mr. Nicholas Brown, President and CEO of SPP, along with others, noted the following:

“FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well-vetted industry process identifying key requirements to ensure that bulk electric systems meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably, as well as subject SPP and its members to financial penalties. These standards require that SPP’s Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits

² The term Transport Rule is used throughout except when including specific quotations which use the acronym CSAPR.

in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.” (Emphasis added)

Thus, there are very serious reliability issues which those with particular expertise in the area, including the SPP, have identified. The SPP goes on to explain that the result of its “reliability assessment of the CSAPR IPM generation dispatch indicates serious negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling black-outs or cascading outages that would likely have significant impacts on human health, public safety, and commercial activity within SPP.” The SPP further notes, and SWEPCO concurs, that the time period between “finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.” Reliability is not an issue with which the utilities, the FERC or hopefully, the EPA are willing to take risk, as reliability affects every individual, industry, business and ratepayer throughout the region.

NERC also establishes reliability standards, including reserve requirements, which must be considered. In its analysis, the SPP also noted, “Our reliability modeling indicates that the CSAPR Integrated Planning Model 4.1 (IMP) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012.” (Emphasis added) Thus, SWEPCO, and other utilities, may be in a situation where they cannot comply with NERC standards, and also comply with the Transport Rule as proposed by the agency.

SWEPCO carefully forecasts and plans many years in advance to determine generation and transmission needs. However, this planning process has been upset by the fact that SWEPCO did not receive sufficient allowances under the Transport Rule to meet its jurisdictional retail load. Given the very short time allotted for compliance, SWEPCO is considering a multi-faceted compliance approach, all of which affects reliability and increases costs to our ratepayers, and none of which was accurately predicted or taken into account by EPA in the final rule.

Our compliance plan likely will include a mix of the following:

1. Re-dispatching: We also particularly note that the coal units, such as Welsh, are designed to run as baseload units, and are not designed to run at lower levels and then ramp up where necessary. The engineers at SWEPCO, some of which have over 30 years of experience with these particular generating units, are concerned about the mechanical ability of these units to perform under these circumstances. Specifically, the long term impact in terms of additional maintenance, higher O&M costs, outages and other mechanical issues is unclear.

2. Purchased Power: The other issues to consider for compliance in such a short time-frame include the availability of power for purchase within the SPP market. However, SWEPCO cannot fully assess the market availability in view of the Transport Rule, with other companies simultaneously attempting to develop their own compliance and purchase plans, some of which may include retirement of existing capacity. Certainly, power availability is expected to be less than normal; thus, again resulting in higher costs to ratepayers. As mentioned above, technical transmission constraints may compound the decreased availability of market power, increasing prices even further.

3. Air Emissions Controls: SWEPCO is evaluating technical emission controls, which include installing low NOx burners and over-fire air systems, for example, at Flint Creek for operation in the 2013 ozone season (May to September). Further, SWEPCO and Central Louisiana Electric Company (CLECO) jointly own the Dolet Hills Power Plant in Mansfield, Louisiana, and it will be necessary to install a Selective Non-Catalytic Reduction (SNCR) system. There are timing and cost risks associated with these actions, because other companies are taking similar actions during the very short time allotted. There will be significant competition for material and labor; thus, again affecting ratepayers.

4. Allowance Purchases: SWEPCO will also be considering purchasing emission allowances as available, in order to compensate for shortfalls. There are risks associated with this strategy, in that if states exceed their assurance limits, there could be penalties associated with the purchases of allowances. Additionally, the availability of allowances is uncertain.

All of the above are compliance actions being considered solely to comply with the Transport Rule. However, compliance with the Transport Rule and the other proposed EPA rulemakings, are estimated to cost approximately \$1.3 billion dollars for SWEPCO alone, which costs will materially affect rates and our ratepayers.

V. Conclusion:

SWEPCO appreciates the opportunity to submit this Request for Reconsideration and Stay, particularly in light of the significant adverse impacts upon SWEPCO and ratepayers throughout SWEPCO's service territory in the states of Louisiana, Arkansas and Texas. SWEPCO also notes and appreciates the dialogue between the Agency and AEP, which has continued since the publication of the final Transport Rule. However, there were fundamental errors in the modeling that adversely affect the ability of SWEPCO to provide reliable and low-cost power to its ratepayers throughout the three states, and which can adversely affect every industry, business and all residents residing in SWEPCO's service territory.

SWEPCO respectfully requests that in light of the particular issues raised hereinabove, and in light of the requests, that the Administrator grant reconsideration of the issues identified herein, and that the Administrator stay the effectiveness of the final rule, while

maintaining the CAIR allowances currently in the compliance accounts for CAIR units, in order to maintain and continue the improvements in air quality achieved to date, with all appropriate remedies including those discussed hereinabove.

Respectfully submitted:

A handwritten signature in black ink, reading "Venita McCellon-Allen". The signature is written in a cursive, flowing style.

Venita McCellon-Allen
President and COO
Southwestern Electric Power Company

cc: Bobby S. Gilliam and Jonathan P. McCartney, Wilkinson, Carmody & Gilliam
Janet J. Henry, Deputy General Counsel, American Electric Power
Commissioners of the Louisiana Public Service Commission
Commissioners of the Arkansas Public Service Commission
Commissioners of the Public Utility Commission of Texas

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

September 20, 2011



Administrator Lisa P. Jackson
USEPA Headquarters
Ariel Rios Building
1200 Pennsylvania Avenue, N. W.
Mail Code: 1101A
Washington, DC 20460

Re: SPP's Review of the EPA's IPM Analysis of the Cross-State Air Pollution Rule, Docket ID No. EPA-HQ-OAR-2009-0491

Dear Ms. Jackson:

Southwest Power Pool, Inc. (SPP), in its capacity as a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) and a Regional Entity, is concerned that the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region. SPP originally expressed concern with the reliability impacts of proposed regulations¹ in its July 19, 2011 comment letter to the EPA.

As required by the Energy Policy Act of 2005, FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well vetted industry process identifying key requirements to ensure the bulk electric system meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably as well subject SPP and its members to financial penalties. These standards require that SPP's Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.

Our reliability modeling² indicates that the CSAPR Integrated Planning Model 4.1 (IPM) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012. SPP's planning models identified 5.4 GW from the 48 generation units identified by the EPA with zero fuel burn in 2012 that would have been dispatched during the 2012

¹ On July 19, 2011, Nicholas A. Brown, SPP President and CEO, submitted comments to the EPA in Docket ID Nos. EPA-HQ-OW-2008-0667, EPA-HQ-OAR-2009-0234, and EPA-HQ-OAR-2011-0044, additionally providing SPP's preliminary assessment of the potential reliability impacts of proposed EPA regulations impacting generation in the SPP footprint.

² SPP removed all generation units in its models that consumed zero fuel in the EPA models. No other SPP model adjustments were made.

Summer Peak conditions. Our analysis revealed 220 overloads in excess of the required, 100% of emergency ratings under contingencies, and 1047 circumstances at various locations on the transmission system where voltage was below the prescribed lower limit of 90% of nominal rating. The statistics in this analysis must be viewed as being indicative, not definitive, results and are probably very conservative compared to what would be experienced in the real world should the modeled system conditions exist. An even clearer representation of reliability violations can be found by applying higher operability limits of 120% to the overloads. There were 16 such overloads on the system. Using a similar out of normal range there were 93 circumstances where voltage dropped below 85% of nominal. These “clear-cut” examples of standards violations represent the well founded concerns regarding the timeline with which the CSAPR would be instituted.

Additionally, 30 contingency scenarios did not solve, which is indicative of extreme system constraints, including the potential of cascading blackouts similar to what occurred in 2003 or which could require the shedding of firm load (that is, localized rolling black-outs initiated by utilities within the SPP region) to avoid more widespread and uncontrolled blackouts and to remain in compliance with reliability standards. Some of the contingencies could be resolved with other short-term transmission and/or resource solutions, but several could not. In those cases, SPP would be in clear violation of mandatory reliability standards and subject to penalty from FERC. However, SPP cannot be compliant with NERC’s planning standards without placing its generation owners in violation of EPA standards when the unutilized units in the IPM are unavailable to SPP. Further exacerbating this situation, SPP’s analysis also revealed that generation production from “small units”³ increased from 13 to 57 units deployed. Some of these units are likely subject to the reciprocating internal combustion engines (RICE) regulations, which were not evaluated as part of this reliability study. If we look beyond the summer peak hour studied, the unavailability of approximately 11 GWs⁴ of total capacity from the EPA model in SPP’s footprint would likely result in additional localized reliability issues.

The result of SPP’s reliability assessment of the EPA’s CSAPR IPM generation dispatch indicates serious, negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling blackouts or cascading outages that would likely have significant impacts on human health, public safety and commercial activity within SPP. These regulations further compound the reliability impacts addressed by SPP in its July 19, 2011 comment letter, which focused on the MACT regulations to be enacted in 2014/15. The time period between finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.

SPP supports a more flexible approach to meeting the emission requirements under the CSAPR, as stated in a joint letter from the New York Independent System Operator, Midwest Independent System Operator, PJM Regional Transmission Organization, the Electric Reliability Council of Texas, and SPP to the EPA in August. The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, SPP and its members may be placed in the untenable position of deciding which agency’s rules to violate, FERC or EPA. Putting an

³ “Small units” denotes those units generating 25 megawatts or less per unit.

⁴ Although the EPA model had additional units and capacity with zero fuel burn in 2012 (10.7 - 10.9 GW in total depending on the source of the Pmax), many of these units which were not dispatched in our 2012summer model will be needed during off-peak load periods to accommodate outages and to maintain system reliability.



HELPING OUR MEMBERS WORK TOGETHER
TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

industry with critical infrastructure in the position of choosing which agency's rules to violate is bad public policy. SPP suggests that the EPA delay CSAPR's effective date at least a year to allow for investigating, planning, and developing solutions to assist our members in maintaining grid reliability and compliance with both its current regulatory bodies and all of the EPA regulations that impact the electric industry.

Your prompt attention to this matter is greatly appreciated. Please do not hesitate to contact me if you have any questions or would like to discuss this matter further.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Nick Brown".

Nicholas A. Brown
President & CEO
Southwest Power Pool, Inc.
(501) 614-3213 • Fax: (501) 664-9553 • nbrown@spp.org

A handwritten signature in cursive script, appearing to read "John Meyer".

John Meyer
Chairman and Trustee
Southwest Power Pool Regional Entity

A handwritten signature in cursive script, appearing to read "David Christiano".

David Christiano
Trustee
Southwest Power Pool Regional Entity

A handwritten signature in cursive script, appearing to read "Gerry Burrows".

Gerry Burrows
Trustee
Southwest Power Pool Regional Entity

cc: SPP Board of Directors
SPP Regional State Committee
SPP Strategic Planning Committee
State Regulators in Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico,
Oklahoma, and Texas



HELPING OUR MEMBERS WORK TOGETHER
TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

Congressional Delegations of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
Governors of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
North American Electric Reliability Corporation
President Barack Obama
Secretary of Energy Dr. Steven Chu
Federal Energy Regulatory Commission

October 5, 2011

Via Overnight and Electronic Mail

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Room 3000, Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460
(jackson.lisa@epa.gov)

Re: Request of Southwestern Electric Power Company (SWEPCO) for
Reconsideration and for Stay of *Federal Implementation Plans to Reduce
Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP
Approvals*, 76 Fed. Reg. 48208 (August 8, 2011); Docket No. EPA-HQ-OAR-
2009-0491

Dear Administrator Jackson:

We are submitting this Request for Reconsideration and Stay to the U.S. Environmental Protection Agency ("EPA" and/or "agency") on behalf of Southwestern Electric Power Company (SWEPCO), an electric public utility that has and continues to serve Northwest Louisiana, East Texas, and Western Arkansas. SWEPCO has carefully reviewed the final rule entitled *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, published at 76 Fed. Reg. 48208 (August 8, 2011), (hereinafter referred to as the "Transport Rule") including the material changes to the rule between its original proposal and the final version. SWEPCO has reviewed particularly the significant issues concerning the revision of state budgets based on new modeling which contains erroneous assumptions. The new proposed rule, based on this modeling, adopts an inflexible trading system that combines new and significantly different reductions in emissions with an implementation date that is less than 6 months from the public release of the rule. These mandated reductions in such a short time period without an adequate means to comply will result in immediate and irreparable harm to states, utilities, such as SWEPCO, and particularly, to all of SWEPCO's ratepayers. In light of the foregoing, SWEPCO respectfully requests reconsideration and stay of the Transport Rule.

**I. SWEPCO Adopts and Joins in the Request for Reconsideration and Stay by
American Electric Power and the Louisiana Public Service Commission**

In submitting this Request for Reconsideration and Stay, SWEPCO also notes that it is an operating company of American Electric Power System (collectively referred to herein as

“AEP”). SWEPCO hereby adopts the comments of AEP, in its Request for Reconsideration and Stay, such that there is no need to repeat all of the significant issues raised in the Request submitted by AEP. However, while adopting and incorporating the comments and material issues raised in the AEP Request for Reconsideration and Stay, SWEPCO as an electric public utility, also submits these comments, noting the specific negative impacts upon SWEPCO and its ratepayers, resulting from the implementation of the Transport Rule on the terms and within the timeframe currently proposed. This Request will require a specific discussion of SWEPCO’s generating and transmission assets and the adverse effects as to reliability and costs resulting from the Transport Rule, as proposed.

SWEPCO also notes that the Louisiana Public Service Commission (LPSC), an entity established directly by Louisiana Constitution in Article VI, Sections 3 through 9, is also filing a separate Request for Reconsideration and Stay of the Transport Rule. The LPSC took this significant action, due to the material adverse impacts upon the State of Louisiana, the public utilities in Louisiana, and particularly, the ratepayers throughout Louisiana. SWEPCO also supports the Request for Reconsideration and Stay by the LPSC and the material issues and impacts discussed therein. However, SWEPCO files its Request for Reconsideration and Stay, in order to set forth the specific issues resulting from the implementation of the Transport Rule as proposed, including but not limited to the need for analysis of the individual electric generating units, as well as and the ability to evaluate local transmission constraints in order to fully evaluate all reliability, costs and other impacts upon SWEPCO and its ratepayers.

In addition to faulty modeling, the EPA’s Integrated Planning Model (IPM) does not incorporate or include this type of analysis, which is essential to determine the actual impacts upon ratepayers, who are entitled to and are reliant upon reliable and low cost service.

II. Southwestern Electric Power Company, an Electric Public Utility with an Obligation to Provide Reliable Service at Reasonable Costs, Requests EPA to Reconsider and Stay its Transport Rule:

SWEPCO and its predecessors have served ratepayers throughout Northwest Louisiana, East Texas and Northwest Arkansas for about a century. SWEPCO’s corporate headquarters are located in Shreveport, Louisiana, with SWEPCO serving rural and metropolitan customers throughout the tri-state region. Some of the metropolitan areas include Shreveport and Bossier City in Northwest Louisiana, including Barksdale Air Force Base; Longview, Marshall and Texarkana in East Texas, including US Steel; and Texarkana and Fayetteville in Arkansas, including the University of Arkansas. In addition, SWEPCO provides service to eight wholesale customers, including several rural electric cooperatives and the city of Bentonville, Arkansas, which houses Wal-Mart’s world headquarters.

SWEPCO is an electric public utility that has consistently provided reliable service to its ratepayers, while maintaining some of the lowest rates in the region. In order to

accomplish these objectives, SWEPCO uses a diversified fuel mix, so as to ensure continued reliability and low rates, including natural gas, Wyoming low-sulfur coal, and locally-mined lignite. The most recent addition to its generating fleet is the J. Lamar Stall Unit at Arsenal Hill in Shreveport, a 508 MW combined cycle, natural gas unit. SWEPCO's solid fuel units are primarily baseload units, with the Stall Unit at Arsenal Hill being an example of an intermediate unit, and with older, higher-cost gas units serving as peaking units. All of SWEPCO's capacity was put to use during the summer of 2011, with SWEPCO reaching an all-time new peak of 5,543 MW on August 3rd. Additional high demands were set on August 2nd with 5,457 MW, and on August 1st with 5,370 MW. All of these peak loads exceeded the previous record of 4,994 MW set last summer on August 11, 2010. During this past summer, the load exceeded projections by over 7%. Thus, demands on SWEPCO's systems have been steadily increasing due to high demand during hot summers.

SWEPCO, as an electric public utility, is regulated by the respective public service commissions in each of the three states in which it provides service, including the Louisiana Public Service Commission (LPSC), Arkansas Public Service Commission (APSC) and the Public Utility Commission of Texas (PUCT). All of the respective commissions are charged with the responsibility of regulating service, reliability, costs, and related issues for the benefit of ratepayers. Significantly, SWEPCO, as an electric public utility has the obligation to serve, in each of the respective states. This obligation requires careful long term planning and the consideration of reliability issues, reserve requirements, transmission capacity and certainly, costs. The reliable supply of electricity is critical to the public health and to the economy of each of SWEPCO's states.

In order to consider and fully evaluate and address these issues in terms of the Transport Rule, the individual performance of each and every affected electric generation unit and any specific transmission constraints must be carefully and accurately considered and evaluated. However, system analysis has not been done, as there has not been sufficient time granted to fully analyze and address these critical issues. This lack of any meaningful analysis has also resulted in there being significant errors in the EPA's IPM, which will result in substantial and material adverse impacts. Consequently, SWEPCO requests reconsideration and stay of the Transport Rule, while these significant errors and issues, which materially and adversely affect ratepayers throughout the three state region, be fully analyzed and assessed.

SWEPCO also specifically requests that the EPA stay its anticipated action in removing allowances from the existing Clean Air Interstate Rule (CAIR) allowance accounts, so that during any period for reconsideration or judicial review, the omission reductions that have been and are being made can continue, so as to contribute to the improved air quality across the region. SWEPCO respectfully requests and urges the EPA not to dismantle the successful existing compliance structure, without providing SWEPCO and others the opportunity to seek the needed relief from the Transport Rule, which includes unreasonable reduction demands, and an inflexible compliance schedule, the impacts of which have not been correctly and fully analyzed and determined by the agency.

III. the EPA's Modeling is Fundamentally Flawed and SWEPCO Had No Notice or Opportunity to Comment on Key Errors:

In developing the proposed Transport Rule's redesign of CAIR's cap and trade system, EPA followed a process based upon the complex IPM modeling of the US Electric Power Sector. (The modeling process is discussed in more detail in the AEP Request for Reconsideration and Stay (see pp. 3-5)). The EPA then identified the proportion of each state's contributing emissions, which it projected to "contribute to" or "interfere with" the maintenance compliance by another state. Under the Transport Rule, states were included in one or more of three separate programs to reduce their annual SO₂, NO_x, and/or seasonal NO_x emissions in order to help down-wind states achieve compliance. The proposed rule also assigned annual emission budgets to each state for each pollutant and allocated emission allowances to sources within each state for the years 2012 and 2014. The 2012 emission reductions were intended to reflect continuous operation of installed controls, limited upgrades of combustion controls (for NO_x) and limited fuel switching (for SO₂). After the publication of the proposed rule in the Federal Register, the EPA provided only sixty days to review over 250 pages of regulatory language and volumes of supporting documentation and detailed modeling information. There were significant errors noted in the modeling inputs and in the various assumptions, some of which directly affect SWEPCO.

Thereafter, the EPA issued three separate notices with the last being in January 2011, which included IPM model runs still based upon incorrect inputs, examining different allocation methodologies, and compliance scenarios. Subsequently, upon receiving comments, EPA updated its models and generated scenarios that had never before been provided for public review, so as to achieve even more significant reductions in SO₂ and NO_x emissions and then proposed to expand the program into six other states for ozone-season NO_x. EPA also altered the programs that would be effective in certain states, limiting the requirements to ozone-season only reductions in Louisiana, but imposing annual SO₂ and NO_x reduction requirements that were never previously announced in Texas. All of EPA's actions affecting the regional states are significant for SWEPCO, as all generation units owned by SWEPCO, whether located in Louisiana, Arkansas or Texas, are needed to serve SWEPCO ratepayers across all three state jurisdictions.

The level of reduction required to be achieved in various states, including Arkansas, Louisiana and Texas changed materially from the proposed rule to the final rule. (See chart entitled *Comparison of Proposed to Final 2012 Budgets in AEP States* on p. 6 of AEP Request for Reconsideration and Stay)

The Transport Rule's proposed state reductions, based upon EPA's incorrect modeling, evaluated Louisiana's 2010 NO_x emissions based upon a three-year average at 23,172 (tons of NO_x), with an emission budget in 2012 and 2013 at 13,432, with emissions under budget of 9,740 for a required percentage change of -42%. The estimated impact

of the NOx seasonal-ozone reductions for Louisiana utilities are preliminarily estimated¹ as follows:

	3-Year Average NOx	CSAPR			
		Allocation	Percent Difference	Deficit with CSAPR	
				2012	2014
CLECO	2,760.9	1,534.2	-44.4%	(1,226.7)	(1,226.7)
ELL	6,516.0	2,609.0	-60.0%	(3,907.0)	(3,907.0)
EGSL	2,925.3	1,583.0	-45.9%	(1,342.3)	(1,342.3)
ENO	896.5	592.0	-34.0%	(304.5)	(304.5)
SWEPCO	1,150.0	630.0	-45.2%	(520.0)	(520.0)
Muni	1,637.5	806.8	-50.7%	(830.7)	(830.7)
Big Cajun 2	5,001.7	2,842.0	-43.2%	(2,159.7)	(2,159.7)
IPP	281.6	415.0	47.4%	133.4	133.4
Cogen	1,864.5	2,018.0	8.2%	153.5	153.5
Total	23,034.0	13,030.0	-43.4%	(10,004.0)	(10,004.0)

The methodology used to develop the state-by-state emission budgets is fundamentally flawed, which in turn resulted in flawed unit-by-unit allocations. SWEPCO had no notice or opportunity to comment on these key errors. For example:

1. The underlying modeling performed by EPA constrained the operation of classes of generation that are traditionally used to support periods of peak demand (that routinely occur during the ozone season, with the SWEPCO units being discussed below);
2. The model projects significant changes in coal supplies in 2012, even though most of the generating units in the Transport Rule region, including SWEPCO, have made contractual commitments to existing fuel suppliers for 2012 and beyond, so as to ensure low cost fuel and transportation;
3. The cost assumptions used in the underlying model were understated; and
4. The level of projected generation in individual states, including Louisiana, is well below levels generated in 2010. If generation were to be constrained under this false assumption, the constrained supply would affect the public health during

¹ The data set forth in the chart was presented by LPSC Staff at the September 7, 2011 Business and Executive Meeting of the LPSC. Staff also noted that Louisiana would likely run out of emission credits around July 4th, 2012 (with the ozone season running through the end of September) if the Transport Rule, as proposed, takes effect. This would result in 80 days without credits, resulting in an obvious inability to comply.

warm summer months and would further impede economic recovery and job growth.

5. As a result of the flawed model, the NO_x seasonal-ozone budget for Louisiana is significantly smaller than required for reliable electrical system operation.

EPA's modeling for unit operations is not consistent with either historical operation or expected operation under the Transport Rule requirements. As an example, within Louisiana there is over 9200 MW of generation that is assumed not to run within the Transport Rule policy case in 2012. However, most of this generation was operating during 2010 and was responsible for 26% of ozone season heat input and 43% of ozone season emissions. Many of these units are critical for grid reliability and are must-run units. Consequently, EPA has dramatically underestimated the generation requirements from within the state of Louisiana, as well as NO_x emissions.

The model includes other erroneous operating assumptions under the EPA's dispatch modeling that are specific to SWEPCO units. The EPA model assumes that the following SWEPCO Louisiana units will not run: Lieberman Units 1 through 4 and Arsenal Hill 5. These are necessary and essential peaking units, which in fact operated in 2010 and in 2011. Further, the EPA model assumes the following Texas units will not run: Knox Lee Units 2, 3, 4, and 5; Wilkes Unit 1; and Lone Star Unit 1. In fact, all of these units operated in the modeling period of 2010, as well as in the load-critical summer of 2011. Moreover, these units are projected to run again in 2012 to meet load and reliability requirements.

EPA's model also made significant erroneous assumptions concerning fuel. The model outputs incorrectly assume that Lieberman Units 3 and 4, Arsenal Hill 5, Knox Lee 4, and Wilkes 1 are fueled by oil. In fact, Arsenal Hill 5 and Knox Lee 4 are *incapable* of burning fuel oil. While some of the other units have the ability to burn oil, these units are fueled by natural gas and have been fueled by natural gas for years.

The EPA model assumed that SWEPCO will not operate the eleven (11) units identified above, representing approximately 1000 MW of capacity, which were excluded from the study. Thus, EPA must also have assumed that SWEPCO could somehow displace 1000 MW generating capacity for the 10 units by purchasing from other sources. While SWEPCO should be able to confirm a portion of the requested service by modifying redispatch requirements, some redispatch requirements would require the assistance of and contacts with unaffiliated third parties, who are under no obligation whatsoever to lend assistance to SWEPCO, a public utility with an obligation to serve. In addition, there is no study demonstrating transmission capacity will be available for delivery of this supply to SWEPCO's load or the effect transmission constraints may have on ratepayer costs.

The EPA's methodology also only allocates additional allowances to "planned" units that commence operations between January 2010 and January 2012, thus, ignoring units that will commence operations in 2012 or 2013. For example, AEP is constructing a large

ultra-supercritical coal-fired power plant, the Turk Plant in Arkansas, which is anticipated to commence operation in October 2012. Turk should have been included in the “planned” new unit allocation. Turk’s permitted NOx emissions alone are over three times the size of the total new unit set-aside, and it is expected to run as a baseload unit during ozone season, making the current set-aside grossly inadequate. Also, a new unit at the Plum Point Power Station is being constructed in Arkansas, which commenced operation during 2011, and should have been but was not included in the calculation of additional new source set-aside. In light of these under-allocations, the two newest and most efficient generators within the state of Arkansas are at risk of exceeding assurance levels due to an insufficient allocation of allowances. Thus, SWEPCO requests, as a part of the requested relief, that the allocations be increased in the affected states in which SWEPCO operates, in addition to the other relief sought herein.

There has not been sufficient time granted to conduct the precise studies necessary to determine the magnitude of the impact of the Transport Rule upon SWEPCO and its ratepayers. Thus, the modeling is substantially flawed, with the SWEPCO specific omissions and errors noted above being material. Respectfully, this alone should result in the reconsideration and stay of the effect of the Transport Rule, pending correction of the errors, followed by further study and analysis, with a request to stay the rule as it applies to Louisiana, Arkansas and Texas.

IV. SWEPCO Must Consider Compliance Issues in the Context of a Reasonable Time Frame, Meeting Reliability Requirements and the Significant Impacts Upon Its Ratepayers:

SWEPCO is a member of the Southwest Power Pool (SPP), a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO). On September 20, 2011, the SPP corresponded with you as the Administrator of the EPA and advised that the SPP is “concerned that the Environmental Protection Agency finalized the Cross State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region.”² (See Exhibit “A”)

In expressing its reliability concerns, Mr. Nicholas Brown, President and CEO of SPP, along with others, noted the following:

“FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well-vetted industry process identifying key requirements to ensure that bulk electric systems meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably, as well as subject SPP and its members to financial penalties. These standards require that SPP’s Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits

² The term Transport Rule is used throughout except when including specific quotations which use the acronym CSAPR.

in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.” (Emphasis added)

Thus, there are very serious reliability issues which those with particular expertise in the area, including the SPP, have identified. The SPP goes on to explain that the result of its “reliability assessment of the CSAPR IPM generation dispatch indicates serious negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling black-outs or cascading outages that would likely have significant impacts on human health, public safety, and commercial activity within SPP.” The SPP further notes, and SWEPCO concurs, that the time period between “finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.” Reliability is not an issue with which the utilities, the FERC or hopefully, the EPA are willing to take risk, as reliability affects every individual, industry, business and ratepayer throughout the region.

NERC also establishes reliability standards, including reserve requirements, which must be considered. In its analysis, the SPP also noted, “Our reliability modeling indicates that the CSAPR Integrated Planning Model 4.1 (IMP) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012.” (Emphasis added) Thus, SWEPCO, and other utilities, may be in a situation where they cannot comply with NERC standards, and also comply with the Transport Rule as proposed by the agency.

SWEPCO carefully forecasts and plans many years in advance to determine generation and transmission needs. However, this planning process has been upset by the fact that SWEPCO did not receive sufficient allowances under the Transport Rule to meet its jurisdictional retail load. Given the very short time allotted for compliance, SWEPCO is considering a multi-faceted compliance approach, all of which affects reliability and increases costs to our ratepayers, and none of which was accurately predicted or taken into account by EPA in the final rule.

Our compliance plan likely will include a mix of the following:

1. Re-dispatching: We also particularly note that the coal units, such as Welsh, are designed to run as baseload units, and are not designed to run at lower levels and then ramp up where necessary. The engineers at SWEPCO, some of which have over 30 years of experience with these particular generating units, are concerned about the mechanical ability of these units to perform under these circumstances. Specifically, the long term impact in terms of additional maintenance, higher O&M costs, outages and other mechanical issues is unclear.

2. Purchased Power: The other issues to consider for compliance in such a short time-frame include the availability of power for purchase within the SPP market. However, SWEPCO cannot fully assess the market availability in view of the Transport Rule, with other companies simultaneously attempting to develop their own compliance and purchase plans, some of which may include retirement of existing capacity. Certainly, power availability is expected to be less than normal; thus, again resulting in higher costs to ratepayers. As mentioned above, technical transmission constraints may compound the decreased availability of market power, increasing prices even further.

3. Air Emissions Controls: SWEPCO is evaluating technical emission controls, which include installing low NOx burners and over-fire air systems, for example, at Flint Creek for operation in the 2013 ozone season (May to September). Further, SWEPCO and Central Louisiana Electric Company (CLECO) jointly own the Dolet Hills Power Plant in Mansfield, Louisiana, and it will be necessary to install a Selective Non-Catalytic Reduction (SNCR) system. There are timing and cost risks associated with these actions, because other companies are taking similar actions during the very short time allotted. There will be significant competition for material and labor; thus, again affecting ratepayers.

4. Allowance Purchases: SWEPCO will also be considering purchasing emission allowances as available, in order to compensate for shortfalls. There are risks associated with this strategy, in that if states exceed their assurance limits, there could be penalties associated with the purchases of allowances. Additionally, the availability of allowances is uncertain.

All of the above are compliance actions being considered solely to comply with the Transport Rule. However, compliance with the Transport Rule and the other proposed EPA rulemakings, are estimated to cost approximately \$1.3 billion dollars for SWEPCO alone, which costs will materially affect rates and our ratepayers.

V. Conclusion:

SWEPCO appreciates the opportunity to submit this Request for Reconsideration and Stay, particularly in light of the significant adverse impacts upon SWEPCO and ratepayers throughout SWEPCO's service territory in the states of Louisiana, Arkansas and Texas. SWEPCO also notes and appreciates the dialogue between the Agency and AEP, which has continued since the publication of the final Transport Rule. However, there were fundamental errors in the modeling that adversely affect the ability of SWEPCO to provide reliable and low-cost power to its ratepayers throughout the three states, and which can adversely affect every industry, business and all residents residing in SWEPCO's service territory.

SWEPCO respectfully requests that in light of the particular issues raised hereinabove, and in light of the requests, that the Administrator grant reconsideration of the issues identified herein, and that the Administrator stay the effectiveness of the final rule, while

maintaining the CAIR allowances currently in the compliance accounts for CAIR units, in order to maintain and continue the improvements in air quality achieved to date, with all appropriate remedies including those discussed hereinabove.

Respectfully submitted:

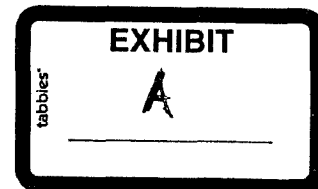
A handwritten signature in black ink that reads "Venita McCellon-Allen". The signature is written in a cursive, flowing style.

Venita McCellon-Allen
President and COO
Southwestern Electric Power Company

cc: Bobby S. Gilliam and Jonathan P. McCartney, Wilkinson, Carmody & Gilliam
Janet J. Henry, Deputy General Counsel, American Electric Power
Commissioners of the Louisiana Public Service Commission
Commissioners of the Arkansas Public Service Commission
Commissioners of the Public Utility Commission of Texas

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

September 20, 2011



Administrator Lisa P. Jackson
USEPA Headquarters
Ariel Rios Building
1200 Pennsylvania Avenue, N. W.
Mail Code: 1101A
Washington, DC 20460

Re: SPP's Review of the EPA's IPM Analysis of the Cross-State Air Pollution Rule, Docket ID No. EPA-HQ-OAR-2009-0491

Dear Ms. Jackson:

Southwest Power Pool, Inc. (SPP), in its capacity as a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) and a Regional Entity, is concerned that the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region. SPP originally expressed concern with the reliability impacts of proposed regulations¹ in its July 19, 2011 comment letter to the EPA.

As required by the Energy Policy Act of 2005, FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well vetted industry process identifying key requirements to ensure the bulk electric system meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably as well subject SPP and its members to financial penalties. These standards require that SPP's Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.

Our reliability modeling² indicates that the CSAPR Integrated Planning Model 4.1 (IPM) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012. SPP's planning models identified 5.4 GW from the 48 generation units identified by the EPA with zero fuel burn in 2012 that would have been dispatched during the 2012

¹ On July 19, 2011, Nicholas A. Brown, SPP President and CEO, submitted comments to the EPA in Docket ID Nos. EPA-HQ-OW-2008-0667, EPA-HQ-OAR-2009-0234, and EPA-HQ-OAR-2011-0044, additionally providing SPP's preliminary assessment of the potential reliability impacts of proposed EPA regulations impacting generation in the SPP footprint.

² SPP removed all generation units in its models that consumed zero fuel in the EPA models. No other SPP model adjustments were made.

Summer Peak conditions. Our analysis revealed 220 overloads in excess of the required, 100% of emergency ratings under contingencies, and 1047 circumstances at various locations on the transmission system where voltage was below the prescribed lower limit of 90% of nominal rating. The statistics in this analysis must be viewed as being indicative, not definitive, results and are probably very conservative compared to what would be experienced in the real world should the modeled system conditions exist. An even clearer representation of reliability violations can be found by applying higher operability limits of 120% to the overloads. There were 16 such overloads on the system. Using a similar out of normal range there were 93 circumstances where voltage dropped below 85% of nominal. These “clear-cut” examples of standards violations represent the well founded concerns regarding the timeline with which the CSAPR would be instituted.

Additionally, 30 contingency scenarios did not solve, which is indicative of extreme system constraints, including the potential of cascading blackouts similar to what occurred in 2003 or which could require the shedding of firm load (that is, localized rolling black-outs initiated by utilities within the SPP region) to avoid more widespread and uncontrolled blackouts and to remain in compliance with reliability standards. Some of the contingencies could be resolved with other short-term transmission and/or resource solutions, but several could not. In those cases, SPP would be in clear violation of mandatory reliability standards and subject to penalty from FERC. However, SPP cannot be compliant with NERC’s planning standards without placing its generation owners in violation of EPA standards when the unutilized units in the IPM are unavailable to SPP. Further exacerbating this situation, SPP’s analysis also revealed that generation production from “small units”³ increased from 13 to 57 units deployed. Some of these units are likely subject to the reciprocating internal combustion engines (RICE) regulations, which were not evaluated as part of this reliability study. If we look beyond the summer peak hour studied, the unavailability of approximately 11 GWs⁴ of total capacity from the EPA model in SPP’s footprint would likely result in additional localized reliability issues.

The result of SPP’s reliability assessment of the EPA’s CSAPR IPM generation dispatch indicates serious, negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling blackouts or cascading outages that would likely have significant impacts on human health, public safety and commercial activity within SPP. These regulations further compound the reliability impacts addressed by SPP in its July 19, 2011 comment letter, which focused on the MACT regulations to be enacted in 2014/15. The time period between finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.

SPP supports a more flexible approach to meeting the emission requirements under the CSAPR, as stated in a joint letter from the New York Independent System Operator, Midwest Independent System Operator, PJM Regional Transmission Organization, the Electric Reliability Council of Texas, and SPP to the EPA in August. The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, SPP and its members may be placed in the untenable position of deciding which agency’s rules to violate, FERC or EPA. Putting an

³ “Small units” denotes those units generating 25 megawatts or less per unit.

⁴ Although the EPA model had additional units and capacity with zero fuel burn in 2012 (10.7 - 10.9 GW in total depending on the source of the Pmax), many of these units which were not dispatched in our 2012summer model will be needed during off-peak load periods to accommodate outages and to maintain system reliability.



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industry with critical infrastructure in the position of choosing which agency's rules to violate is bad public policy. SPP suggests that the EPA delay CSAPR's effective date at least a year to allow for investigating, planning, and developing solutions to assist our members in maintaining grid reliability and compliance with both its current regulatory bodies and all of the EPA regulations that impact the electric industry.

Your prompt attention to this matter is greatly appreciated. Please do not hesitate to contact me if you have any questions or would like to discuss this matter further.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Nick Brown", written in a cursive style.

Nicholas A. Brown
President & CEO
Southwest Power Pool, Inc.
(501) 614-3213 • Fax: (501) 664-9553 • nbrown@spp.org

A handwritten signature in dark ink, appearing to read "John Meyer", written in a cursive style.

John Meyer
Chairman and Trustee
Southwest Power Pool Regional Entity

A handwritten signature in dark ink, appearing to read "David Christiano", written in a cursive style.

David Christiano
Trustee
Southwest Power Pool Regional Entity

A handwritten signature in dark ink, appearing to read "Gerry Burrows", written in a cursive style.

Gerry Burrows
Trustee
Southwest Power Pool Regional Entity

cc: SPP Board of Directors
SPP Regional State Committee
SPP Strategic Planning Committee
State Regulators in Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico,
Oklahoma, and Texas



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TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

Congressional Delegations of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
Governors of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
North American Electric Reliability Corporation
President Barack Obama
Secretary of Energy Dr. Steven Chu
Federal Energy Regulatory Commission

October 5, 2011

Via Overnight and Electronic Mail

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Room 3000, Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460
(jackson.lisa@epa.gov)

Re: Request of Southwestern Electric Power Company (SWEPCO) for
Reconsideration and for Stay of *Federal Implementation Plans to Reduce
Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP
Approvals*, 76 Fed. Reg. 48208 (August 8, 2011); Docket No. EPA-HQ-OAR-
2009-0491

Dear Administrator Jackson:

We are submitting this Request for Reconsideration and Stay to the U.S. Environmental Protection Agency ("EPA" and/or "agency") on behalf of Southwestern Electric Power Company (SWEPCO), an electric public utility that has and continues to serve Northwest Louisiana, East Texas, and Western Arkansas. SWEPCO has carefully reviewed the final rule entitled *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, published at 76 Fed. Reg. 48208 (August 8, 2011), (hereinafter referred to as the "Transport Rule") including the material changes to the rule between its original proposal and the final version. SWEPCO has reviewed particularly the significant issues concerning the revision of state budgets based on new modeling which contains erroneous assumptions. The new proposed rule, based on this modeling, adopts an inflexible trading system that combines new and significantly different reductions in emissions with an implementation date that is less than 6 months from the public release of the rule. These mandated reductions in such a short time period without an adequate means to comply will result in immediate and irreparable harm to states, utilities, such as SWEPCO, and particularly, to all of SWEPCO's ratepayers. In light of the foregoing, SWEPCO respectfully requests reconsideration and stay of the Transport Rule.

**I. SWEPCO Adopts and Joins in the Request for Reconsideration and Stay by
American Electric Power and the Louisiana Public Service Commission**

In submitting this Request for Reconsideration and Stay, SWEPCO also notes that it is an operating company of American Electric Power System (collectively referred to herein as

“AEP”). SWEPCO hereby adopts the comments of AEP, in its Request for Reconsideration and Stay, such that there is no need to repeat all of the significant issues raised in the Request submitted by AEP. However, while adopting and incorporating the comments and material issues raised in the AEP Request for Reconsideration and Stay, SWEPCO as an electric public utility, also submits these comments, noting the specific negative impacts upon SWEPCO and its ratepayers, resulting from the implementation of the Transport Rule on the terms and within the timeframe currently proposed. This Request will require a specific discussion of SWEPCO’s generating and transmission assets and the adverse effects as to reliability and costs resulting from the Transport Rule, as proposed.

SWEPCO also notes that the Louisiana Public Service Commission (LPSC), an entity established directly by Louisiana Constitution in Article VI, Sections 3 through 9, is also filing a separate Request for Reconsideration and Stay of the Transport Rule. The LPSC took this significant action, due to the material adverse impacts upon the State of Louisiana, the public utilities in Louisiana, and particularly, the ratepayers throughout Louisiana. SWEPCO also supports the Request for Reconsideration and Stay by the LPSC and the material issues and impacts discussed therein. However, SWEPCO files its Request for Reconsideration and Stay, in order to set forth the specific issues resulting from the implementation of the Transport Rule as proposed, including but not limited to the need for analysis of the individual electric generating units, as well as and the ability to evaluate local transmission constraints in order to fully evaluate all reliability, costs and other impacts upon SWEPCO and its ratepayers.

In addition to faulty modeling, the EPA’s Integrated Planning Model (IPM) does not incorporate or include this type of analysis, which is essential to determine the actual impacts upon ratepayers, who are entitled to and are reliant upon reliable and low cost service.

II. Southwestern Electric Power Company, an Electric Public Utility with an Obligation to Provide Reliable Service at Reasonable Costs, Requests EPA to Reconsider and Stay its Transport Rule:

SWEPCO and its predecessors have served ratepayers throughout Northwest Louisiana, East Texas and Northwest Arkansas for about a century. SWEPCO’s corporate headquarters are located in Shreveport, Louisiana, with SWEPCO serving rural and metropolitan customers throughout the tri-state region. Some of the metropolitan areas include Shreveport and Bossier City in Northwest Louisiana, including Barksdale Air Force Base; Longview, Marshall and Texarkana in East Texas, including US Steel; and Texarkana and Fayetteville in Arkansas, including the University of Arkansas. In addition, SWEPCO provides service to eight wholesale customers, including several rural electric cooperatives and the city of Bentonville, Arkansas, which houses Wal-Mart’s world headquarters.

SWEPCO is an electric public utility that has consistently provided reliable service to its ratepayers, while maintaining some of the lowest rates in the region. In order to

accomplish these objectives, SWEPCO uses a diversified fuel mix, so as to ensure continued reliability and low rates, including natural gas, Wyoming low-sulfur coal, and locally-mined lignite. The most recent addition to its generating fleet is the J. Lamar Stall Unit at Arsenal Hill in Shreveport, a 508 MW combined cycle, natural gas unit. SWEPCO's solid fuel units are primarily baseload units, with the Stall Unit at Arsenal Hill being an example of an intermediate unit, and with older, higher-cost gas units serving as peaking units. All of SWEPCO's capacity was put to use during the summer of 2011, with SWEPCO reaching an all-time new peak of 5,543 MW on August 3rd. Additional high demands were set on August 2nd with 5,457 MW, and on August 1st with 5,370 MW. All of these peak loads exceeded the previous record of 4,994 MW set last summer on August 11, 2010. During this past summer, the load exceeded projections by over 7%. Thus, demands on SWEPCO's systems have been steadily increasing due to high demand during hot summers.

SWEPCO, as an electric public utility, is regulated by the respective public service commissions in each of the three states in which it provides service, including the Louisiana Public Service Commission (LPSC), Arkansas Public Service Commission (APSC) and the Public Utility Commission of Texas (PUCT). All of the respective commissions are charged with the responsibility of regulating service, reliability, costs, and related issues for the benefit of ratepayers. Significantly, SWEPCO, as an electric public utility has the obligation to serve, in each of the respective states. This obligation requires careful long term planning and the consideration of reliability issues, reserve requirements, transmission capacity and certainly, costs. The reliable supply of electricity is critical to the public health and to the economy of each of SWEPCO's states.

In order to consider and fully evaluate and address these issues in terms of the Transport Rule, the individual performance of each and every affected electric generation unit and any specific transmission constraints must be carefully and accurately considered and evaluated. However, system analysis has not been done, as there has not been sufficient time granted to fully analyze and address these critical issues. This lack of any meaningful analysis has also resulted in there being significant errors in the EPA's IPM, which will result in substantial and material adverse impacts. Consequently, SWEPCO requests reconsideration and stay of the Transport Rule, while these significant errors and issues, which materially and adversely affect ratepayers throughout the three state region, be fully analyzed and assessed.

SWEPCO also specifically requests that the EPA stay its anticipated action in removing allowances from the existing Clean Air Interstate Rule (CAIR) allowance accounts, so that during any period for reconsideration or judicial review, the omission reductions that have been and are being made can continue, so as to contribute to the improved air quality across the region. SWEPCO respectfully requests and urges the EPA not to dismantle the successful existing compliance structure, without providing SWEPCO and others the opportunity to seek the needed relief from the Transport Rule, which includes unreasonable reduction demands, and an inflexible compliance schedule, the impacts of which have not been correctly and fully analyzed and determined by the agency.

III. the EPA's Modeling is Fundamentally Flawed and SWEPCO Had No Notice or Opportunity to Comment on Key Errors:

In developing the proposed Transport Rule's redesign of CAIR's cap and trade system, EPA followed a process based upon the complex IPM modeling of the US Electric Power Sector. (The modeling process is discussed in more detail in the AEP Request for Reconsideration and Stay (see pp. 3-5)). The EPA then identified the proportion of each state's contributing emissions, which it projected to "contribute to" or "interfere with" the maintenance compliance by another state. Under the Transport Rule, states were included in one or more of three separate programs to reduce their annual SO₂, NO_x, and/or seasonal NO_x emissions in order to help down-wind states achieve compliance. The proposed rule also assigned annual emission budgets to each state for each pollutant and allocated emission allowances to sources within each state for the years 2012 and 2014. The 2012 emission reductions were intended to reflect continuous operation of installed controls, limited upgrades of combustion controls (for NO_x) and limited fuel switching (for SO₂). After the publication of the proposed rule in the Federal Register, the EPA provided only sixty days to review over 250 pages of regulatory language and volumes of supporting documentation and detailed modeling information. There were significant errors noted in the modeling inputs and in the various assumptions, some of which directly affect SWEPCO.

Thereafter, the EPA issued three separate notices with the last being in January 2011, which included IPM model runs still based upon incorrect inputs, examining different allocation methodologies, and compliance scenarios. Subsequently, upon receiving comments, EPA updated its models and generated scenarios that had never before been provided for public review, so as to achieve even more significant reductions in SO₂ and NO_x emissions and then proposed to expand the program into six other states for ozone-season NO_x. EPA also altered the programs that would be effective in certain states, limiting the requirements to ozone-season only reductions in Louisiana, but imposing annual SO₂ and NO_x reduction requirements that were never previously announced in Texas. All of EPA's actions affecting the regional states are significant for SWEPCO, as all generation units owned by SWEPCO, whether located in Louisiana, Arkansas or Texas, are needed to serve SWEPCO ratepayers across all three state jurisdictions.

The level of reduction required to be achieved in various states, including Arkansas, Louisiana and Texas changed materially from the proposed rule to the final rule. (See chart entitled *Comparison of Proposed to Final 2012 Budgets in AEP States* on p. 6 of AEP Request for Reconsideration and Stay)

The Transport Rule's proposed state reductions, based upon EPA's incorrect modeling, evaluated Louisiana's 2010 NO_x emissions based upon a three-year average at 23,172 (tons of NO_x), with an emission budget in 2012 and 2013 at 13,432, with emissions under budget of 9,740 for a required percentage change of -42%. The estimated impact

of the NOx seasonal-ozone reductions for Louisiana utilities are preliminarily estimated¹ as follows:

	3-Year Average NOx	CSAPR			
		Allocation	Percent Difference	Deficit with CSAPR	
				2012	2014
CLECO	2,760.9	1,534.2	-44.4%	(1,226.7)	(1,226.7)
ELL	6,516.0	2,609.0	-60.0%	(3,907.0)	(3,907.0)
EGSL	2,925.3	1,583.0	-45.9%	(1,342.3)	(1,342.3)
ENO	896.5	592.0	-34.0%	(304.5)	(304.5)
SWEPCO	1,150.0	630.0	-45.2%	(520.0)	(520.0)
Muni	1,637.5	806.8	-50.7%	(830.7)	(830.7)
Big Cajun 2	5,001.7	2,842.0	-43.2%	(2,159.7)	(2,159.7)
IPP	281.6	415.0	47.4%	133.4	133.4
Cogen	1,864.5	2,018.0	8.2%	153.5	153.5
Total	23,034.0	13,030.0	-43.4%	(10,004.0)	(10,004.0)

The methodology used to develop the state-by-state emission budgets is fundamentally flawed, which in turn resulted in flawed unit-by-unit allocations. SWEPCO had no notice or opportunity to comment on these key errors. For example:

1. The underlying modeling performed by EPA constrained the operation of classes of generation that are traditionally used to support periods of peak demand (that routinely occur during the ozone season, with the SWEPCO units being discussed below);
2. The model projects significant changes in coal supplies in 2012, even though most of the generating units in the Transport Rule region, including SWEPCO, have made contractual commitments to existing fuel suppliers for 2012 and beyond, so as to ensure low cost fuel and transportation;
3. The cost assumptions used in the underlying model were understated; and
4. The level of projected generation in individual states, including Louisiana, is well below levels generated in 2010. If generation were to be constrained under this false assumption, the constrained supply would affect the public health during

¹ The data set forth in the chart was presented by LPSC Staff at the September 7, 2011 Business and Executive Meeting of the LPSC. Staff also noted that Louisiana would likely run out of emission credits around July 4th, 2012 (with the ozone season running through the end of September) if the Transport Rule, as proposed, takes effect. This would result in 80 days without credits, resulting in an obvious inability to comply.

warm summer months and would further impede economic recovery and job growth.

5. As a result of the flawed model, the NOx seasonal-ozone budget for Louisiana is significantly smaller than required for reliable electrical system operation.

EPA's modeling for unit operations is not consistent with either historical operation or expected operation under the Transport Rule requirements. As an example, within Louisiana there is over 9200 MW of generation that is assumed not to run within the Transport Rule policy case in 2012. However, most of this generation was operating during 2010 and was responsible for 26% of ozone season heat input and 43% of ozone season emissions. Many of these units are critical for grid reliability and are must-run units. Consequently, EPA has dramatically underestimated the generation requirements from within the state of Louisiana, as well as NOx emissions.

The model includes other erroneous operating assumptions under the EPA's dispatch modeling that are specific to SWEPCO units. The EPA model assumes that the following SWEPCO Louisiana units will not run: Lieberman Units 1 through 4 and Arsenal Hill 5. These are necessary and essential peaking units, which in fact operated in 2010 and in 2011. Further, the EPA model assumes the following Texas units will not run: Knox Lee Units 2, 3, 4, and 5; Wilkes Unit 1; and Lone Star Unit 1. In fact, all of these units operated in the modeling period of 2010, as well as in the load-critical summer of 2011. Moreover, these units are projected to run again in 2012 to meet load and reliability requirements.

EPA's model also made significant erroneous assumptions concerning fuel. The model outputs incorrectly assume that Lieberman Units 3 and 4, Arsenal Hill 5, Knox Lee 4, and Wilkes 1 are fueled by oil. In fact, Arsenal Hill 5 and Knox Lee 4 are *incapable* of burning fuel oil. While some of the other units have the ability to burn oil, these units are fueled by natural gas and have been fueled by natural gas for years.

The EPA model assumed that SWEPCO will not operate the eleven (11) units identified above, representing approximately 1000 MW of capacity, which were excluded from the study. Thus, EPA must also have assumed that SWEPCO could somehow displace 1000 MW generating capacity for the 10 units by purchasing from other sources. While SWEPCO should be able to confirm a portion of the requested service by modifying redispatch requirements, some redispatch requirements would require the assistance of and contacts with unaffiliated third parties, who are under no obligation whatsoever to lend assistance to SWEPCO, a public utility with an obligation to serve. In addition, there is no study demonstrating transmission capacity will be available for delivery of this supply to SWEPCO's load or the effect transmission constraints may have on ratepayer costs.

The EPA's methodology also only allocates additional allowances to "planned" units that commence operations between January 2010 and January 2012, thus, ignoring units that will commence operations in 2012 or 2013. For example, AEP is constructing a large

ultra-supercritical coal-fired power plant, the Turk Plant in Arkansas, which is anticipated to commence operation in October 2012. Turk should have been included in the “planned” new unit allocation. Turk’s permitted NOx emissions alone are over three times the size of the total new unit set-aside, and it is expected to run as a baseload unit during ozone season, making the current set-aside grossly inadequate. Also, a new unit at the Plum Point Power Station is being constructed in Arkansas, which commenced operation during 2011, and should have been but was not included in the calculation of additional new source set-aside. In light of these under-allocations, the two newest and most efficient generators within the state of Arkansas are at risk of exceeding assurance levels due to an insufficient allocation of allowances. Thus, SWEPCO requests, as a part of the requested relief, that the allocations be increased in the affected states in which SWEPCO operates, in addition to the other relief sought herein.

There has not been sufficient time granted to conduct the precise studies necessary to determine the magnitude of the impact of the Transport Rule upon SWEPCO and its ratepayers. Thus, the modeling is substantially flawed, with the SWEPCO specific omissions and errors noted above being material. Respectfully, this alone should result in the reconsideration and stay of the effect of the Transport Rule, pending correction of the errors, followed by further study and analysis, with a request to stay the rule as it applies to Louisiana, Arkansas and Texas.

IV. SWEPCO Must Consider Compliance Issues in the Context of a Reasonable Time Frame, Meeting Reliability Requirements and the Significant Impacts Upon Its Ratepayers:

SWEPCO is a member of the Southwest Power Pool (SPP), a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO). On September 20, 2011, the SPP corresponded with you as the Administrator of the EPA and advised that the SPP is “concerned that the Environmental Protection Agency finalized the Cross State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region.”² (See Exhibit “A”)

In expressing its reliability concerns, Mr. Nicholas Brown, President and CEO of SPP, along with others, noted the following:

“FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well-vetted industry process identifying key requirements to ensure that bulk electric systems meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably, as well as subject SPP and its members to financial penalties. These standards require that SPP’s Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits

² The term Transport Rule is used throughout except when including specific quotations which use the acronym CSAPR.

in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.” (Emphasis added)

Thus, there are very serious reliability issues which those with particular expertise in the area, including the SPP, have identified. The SPP goes on to explain that the result of its “reliability assessment of the CSAPR IPM generation dispatch indicates serious negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling black-outs or cascading outages that would likely have significant impacts on human health, public safety, and commercial activity within SPP.” The SPP further notes, and SWEPCO concurs, that the time period between “finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.” Reliability is not an issue with which the utilities, the FERC or hopefully, the EPA are willing to take risk, as reliability affects every individual, industry, business and ratepayer throughout the region.

NERC also establishes reliability standards, including reserve requirements, which must be considered. In its analysis, the SPP also noted, “Our reliability modeling indicates that the CSAPR Integrated Planning Model 4.1 (IMP) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012.” (Emphasis added) Thus, SWEPCO, and other utilities, may be in a situation where they cannot comply with NERC standards, and also comply with the Transport Rule as proposed by the agency.

SWEPCO carefully forecasts and plans many years in advance to determine generation and transmission needs. However, this planning process has been upset by the fact that SWEPCO did not receive sufficient allowances under the Transport Rule to meet its jurisdictional retail load. Given the very short time allotted for compliance, SWEPCO is considering a multi-faceted compliance approach, all of which affects reliability and increases costs to our ratepayers, and none of which was accurately predicted or taken into account by EPA in the final rule.

Our compliance plan likely will include a mix of the following:

1. Re-dispatching: We also particularly note that the coal units, such as Welsh, are designed to run as baseload units, and are not designed to run at lower levels and then ramp up where necessary. The engineers at SWEPCO, some of which have over 30 years of experience with these particular generating units, are concerned about the mechanical ability of these units to perform under these circumstances. Specifically, the long term impact in terms of additional maintenance, higher O&M costs, outages and other mechanical issues is unclear.

2. Purchased Power: The other issues to consider for compliance in such a short time-frame include the availability of power for purchase within the SPP market. However, SWEPCO cannot fully assess the market availability in view of the Transport Rule, with other companies simultaneously attempting to develop their own compliance and purchase plans, some of which may include retirement of existing capacity. Certainly, power availability is expected to be less than normal; thus, again resulting in higher costs to ratepayers. As mentioned above, technical transmission constraints may compound the decreased availability of market power, increasing prices even further.

3. Air Emissions Controls: SWEPCO is evaluating technical emission controls, which include installing low NOx burners and over-fire air systems, for example, at Flint Creek for operation in the 2013 ozone season (May to September). Further, SWEPCO and Central Louisiana Electric Company (CLECO) jointly own the Dolet Hills Power Plant in Mansfield, Louisiana, and it will be necessary to install a Selective Non-Catalytic Reduction (SNCR) system. There are timing and cost risks associated with these actions, because other companies are taking similar actions during the very short time allotted. There will be significant competition for material and labor; thus, again affecting ratepayers.

4. Allowance Purchases: SWEPCO will also be considering purchasing emission allowances as available, in order to compensate for shortfalls. There are risks associated with this strategy, in that if states exceed their assurance limits, there could be penalties associated with the purchases of allowances. Additionally, the availability of allowances is uncertain.

All of the above are compliance actions being considered solely to comply with the Transport Rule. However, compliance with the Transport Rule and the other proposed EPA rulemakings, are estimated to cost approximately \$1.3 billion dollars for SWEPCO alone, which costs will materially affect rates and our ratepayers.

V. Conclusion:

SWEPCO appreciates the opportunity to submit this Request for Reconsideration and Stay, particularly in light of the significant adverse impacts upon SWEPCO and ratepayers throughout SWEPCO's service territory in the states of Louisiana, Arkansas and Texas. SWEPCO also notes and appreciates the dialogue between the Agency and AEP, which has continued since the publication of the final Transport Rule. However, there were fundamental errors in the modeling that adversely affect the ability of SWEPCO to provide reliable and low-cost power to its ratepayers throughout the three states, and which can adversely affect every industry, business and all residents residing in SWEPCO's service territory.

SWEPCO respectfully requests that in light of the particular issues raised hereinabove, and in light of the requests, that the Administrator grant reconsideration of the issues identified herein, and that the Administrator stay the effectiveness of the final rule, while

maintaining the CAIR allowances currently in the compliance accounts for CAIR units, in order to maintain and continue the improvements in air quality achieved to date, with all appropriate remedies including those discussed hereinabove.

Respectfully submitted:

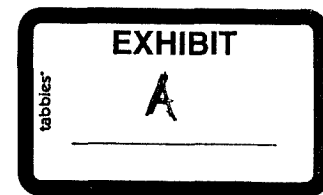
A handwritten signature in black ink, reading "Venita McCellon-Allen". The signature is written in a cursive, flowing style.

Venita McCellon-Allen
President and COO
Southwestern Electric Power Company

cc: Bobby S. Gilliam and Jonathan P. McCartney, Wilkinson, Carmody & Gilliam
Janet J. Henry, Deputy General Counsel, American Electric Power
Commissioners of the Louisiana Public Service Commission
Commissioners of the Arkansas Public Service Commission
Commissioners of the Public Utility Commission of Texas

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

September 20, 2011



Administrator Lisa P. Jackson
USEPA Headquarters
Ariel Rios Building
1200 Pennsylvania Avenue, N. W.
Mail Code: 1101A
Washington, DC 20460

Re: SPP's Review of the EPA's IPM Analysis of the Cross-State Air Pollution Rule, Docket ID No. EPA-HQ-OAR-2009-0491

Dear Ms. Jackson:

Southwest Power Pool, Inc. (SPP), in its capacity as a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) and a Regional Entity, is concerned that the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region. SPP originally expressed concern with the reliability impacts of proposed regulations¹ in its July 19, 2011 comment letter to the EPA.

As required by the Energy Policy Act of 2005, FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well vetted industry process identifying key requirements to ensure the bulk electric system meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably as well subject SPP and its members to financial penalties. These standards require that SPP's Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.

Our reliability modeling² indicates that the CSAPR Integrated Planning Model 4.1 (IPM) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012. SPP's planning models identified 5.4 GW from the 48 generation units identified by the EPA with zero fuel burn in 2012 that would have been dispatched during the 2012

¹ On July 19, 2011, Nicholas A. Brown, SPP President and CEO, submitted comments to the EPA in Docket ID Nos. EPA-HQ-OW-2008-0667, EPA-HQ-OAR-2009-0234, and EPA-HQ-OAR-2011-0044, additionally providing SPP's preliminary assessment of the potential reliability impacts of proposed EPA regulations impacting generation in the SPP footprint.

² SPP removed all generation units in its models that consumed zero fuel in the EPA models. No other SPP model adjustments were made.

Summer Peak conditions. Our analysis revealed 220 overloads in excess of the required, 100% of emergency ratings under contingencies, and 1047 circumstances at various locations on the transmission system where voltage was below the prescribed lower limit of 90% of nominal rating. The statistics in this analysis must be viewed as being indicative, not definitive, results and are probably very conservative compared to what would be experienced in the real world should the modeled system conditions exist. An even clearer representation of reliability violations can be found by applying higher operability limits of 120% to the overloads. There were 16 such overloads on the system. Using a similar out of normal range there were 93 circumstances where voltage dropped below 85% of nominal. These “clear-cut” examples of standards violations represent the well founded concerns regarding the timeline with which the CSAPR would be instituted.

Additionally, 30 contingency scenarios did not solve, which is indicative of extreme system constraints, including the potential of cascading blackouts similar to what occurred in 2003 or which could require the shedding of firm load (that is, localized rolling black-outs initiated by utilities within the SPP region) to avoid more widespread and uncontrolled blackouts and to remain in compliance with reliability standards. Some of the contingencies could be resolved with other short-term transmission and/or resource solutions, but several could not. In those cases, SPP would be in clear violation of mandatory reliability standards and subject to penalty from FERC. However, SPP cannot be compliant with NERC’s planning standards without placing its generation owners in violation of EPA standards when the unutilized units in the IPM are unavailable to SPP. Further exacerbating this situation, SPP’s analysis also revealed that generation production from “small units”³ increased from 13 to 57 units deployed. Some of these units are likely subject to the reciprocating internal combustion engines (RICE) regulations, which were not evaluated as part of this reliability study. If we look beyond the summer peak hour studied, the unavailability of approximately 11 GWs⁴ of total capacity from the EPA model in SPP’s footprint would likely result in additional localized reliability issues.

The result of SPP’s reliability assessment of the EPA’s CSAPR IPM generation dispatch indicates serious, negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling blackouts or cascading outages that would likely have significant impacts on human health, public safety and commercial activity within SPP. These regulations further compound the reliability impacts addressed by SPP in its July 19, 2011 comment letter, which focused on the MACT regulations to be enacted in 2014/15. The time period between finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.

SPP supports a more flexible approach to meeting the emission requirements under the CSAPR, as stated in a joint letter from the New York Independent System Operator, Midwest Independent System Operator, PJM Regional Transmission Organization, the Electric Reliability Council of Texas, and SPP to the EPA in August. The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, SPP and its members may be placed in the untenable position of deciding which agency’s rules to violate, FERC or EPA. Putting an

³ “Small units” denotes those units generating 25 megawatts or less per unit.

⁴ Although the EPA model had additional units and capacity with zero fuel burn in 2012 (10.7 - 10.9 GW in total depending on the source of the Pmax), many of these units which were not dispatched in our 2012summer model will be needed during off-peak load periods to accommodate outages and to maintain system reliability.



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industry with critical infrastructure in the position of choosing which agency's rules to violate is bad public policy. SPP suggests that the EPA delay CSAPR's effective date at least a year to allow for investigating, planning, and developing solutions to assist our members in maintaining grid reliability and compliance with both its current regulatory bodies and all of the EPA regulations that impact the electric industry.

Your prompt attention to this matter is greatly appreciated. Please do not hesitate to contact me if you have any questions or would like to discuss this matter further.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Nick Brown".

Nicholas A. Brown
President & CEO
Southwest Power Pool, Inc.
(501) 614-3213 • Fax: (501) 664-9553 • nbrown@spp.org

A handwritten signature in cursive script, appearing to read "John Meyer".

John Meyer
Chairman and Trustee
Southwest Power Pool Regional Entity

A handwritten signature in cursive script, appearing to read "David Christiano".

David Christiano
Trustee
Southwest Power Pool Regional Entity

A handwritten signature in cursive script, appearing to read "Gerry Burrows".

Gerry Burrows
Trustee
Southwest Power Pool Regional Entity

cc: SPP Board of Directors
SPP Regional State Committee
SPP Strategic Planning Committee
State Regulators in Arkansas, Kansas, Louisiana, Mississippi, Nebraska, New Mexico,
Oklahoma, and Texas



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Congressional Delegations of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
Governors of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
North American Electric Reliability Corporation
President Barack Obama
Secretary of Energy Dr. Steven Chu
Federal Energy Regulatory Commission

October 5, 2011

Via Overnight and Electronic Mail

Administrator Lisa P. Jackson
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Washington, D.C. 20460
(jackson.lisa@epa.gov)

Re: Request of Southwestern Electric Power Company (SWEPCO) for
Reconsideration and for Stay of *Federal Implementation Plans to Reduce
Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP
Approvals*, 76 Fed. Reg. 48208 (August 8, 2011); Docket No. EPA-HQ-OAR-
2009-0491

Dear Administrator Jackson:

We are submitting this Request for Reconsideration and Stay to the U.S. Environmental Protection Agency (“EPA” and/or “agency”) on behalf of Southwestern Electric Power Company (SWEPCO), an electric public utility that has and continues to serve Northwest Louisiana, East Texas, and Western Arkansas. SWEPCO has carefully reviewed the final rule entitled *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, published at 76 Fed. Reg. 48208 (August 8, 2011), (hereinafter referred to as the “Transport Rule”) including the material changes to the rule between its original proposal and the final version. SWEPCO has reviewed particularly the significant issues concerning the revision of state budgets based on new modeling which contains erroneous assumptions. The new proposed rule, based on this modeling, adopts an inflexible trading system that combines new and significantly different reductions in emissions with an implementation date that is less than 6 months from the public release of the rule. These mandated reductions in such a short time period without an adequate means to comply will result in immediate and irreparable harm to states, utilities, such as SWEPCO, and particularly, to all of SWEPCO’s ratepayers. In light of the foregoing, SWEPCO respectfully requests reconsideration and stay of the Transport Rule.

**I. SWEPCO Adopts and Joins in the Request for Reconsideration and Stay by
American Electric Power and the Louisiana Public Service Commission**

In submitting this Request for Reconsideration and Stay, SWEPCO also notes that it is an operating company of American Electric Power System (collectively referred to herein as

“AEP”). SWEPCO hereby adopts the comments of AEP, in its Request for Reconsideration and Stay, such that there is no need to repeat all of the significant issues raised in the Request submitted by AEP. However, while adopting and incorporating the comments and material issues raised in the AEP Request for Reconsideration and Stay, SWEPCO as an electric public utility, also submits these comments, noting the specific negative impacts upon SWEPCO and its ratepayers, resulting from the implementation of the Transport Rule on the terms and within the timeframe currently proposed. This Request will require a specific discussion of SWEPCO’s generating and transmission assets and the adverse effects as to reliability and costs resulting from the Transport Rule, as proposed.

SWEPCO also notes that the Louisiana Public Service Commission (LPSC), an entity established directly by Louisiana Constitution in Article VI, Sections 3 through 9, is also filing a separate Request for Reconsideration and Stay of the Transport Rule. The LPSC took this significant action, due to the material adverse impacts upon the State of Louisiana, the public utilities in Louisiana, and particularly, the ratepayers throughout Louisiana. SWEPCO also supports the Request for Reconsideration and Stay by the LPSC and the material issues and impacts discussed therein. However, SWEPCO files its Request for Reconsideration and Stay, in order to set forth the specific issues resulting from the implementation of the Transport Rule as proposed, including but not limited to the need for analysis of the individual electric generating units, as well as and the ability to evaluate local transmission constraints in order to fully evaluate all reliability, costs and other impacts upon SWEPCO and its ratepayers.

In addition to faulty modeling, the EPA’s Integrated Planning Model (IPM) does not incorporate or include this type of analysis, which is essential to determine the actual impacts upon ratepayers, who are entitled to and are reliant upon reliable and low cost service.

II. Southwestern Electric Power Company, an Electric Public Utility with an Obligation to Provide Reliable Service at Reasonable Costs, Requests EPA to Reconsider and Stay its Transport Rule:

SWEPCO and its predecessors have served ratepayers throughout Northwest Louisiana, East Texas and Northwest Arkansas for about a century. SWEPCO’s corporate headquarters are located in Shreveport, Louisiana, with SWEPCO serving rural and metropolitan customers throughout the tri-state region. Some of the metropolitan areas include Shreveport and Bossier City in Northwest Louisiana, including Barksdale Air Force Base; Longview, Marshall and Texarkana in East Texas, including US Steel; and Texarkana and Fayetteville in Arkansas, including the University of Arkansas. In addition, SWEPCO provides service to eight wholesale customers, including several rural electric cooperatives and the city of Bentonville, Arkansas, which houses Wal-Mart’s world headquarters.

SWEPCO is an electric public utility that has consistently provided reliable service to its ratepayers, while maintaining some of the lowest rates in the region. In order to

accomplish these objectives, SWEPCO uses a diversified fuel mix, so as to ensure continued reliability and low rates, including natural gas, Wyoming low-sulfur coal, and locally-mined lignite. The most recent addition to its generating fleet is the J. Lamar Stall Unit at Arsenal Hill in Shreveport, a 508 MW combined cycle, natural gas unit. SWEPCO's solid fuel units are primarily baseload units, with the Stall Unit at Arsenal Hill being an example of an intermediate unit, and with older, higher-cost gas units serving as peaking units. All of SWEPCO's capacity was put to use during the summer of 2011, with SWEPCO reaching an all-time new peak of 5,543 MW on August 3rd. Additional high demands were set on August 2nd with 5,457 MW, and on August 1st with 5,370 MW. All of these peak loads exceeded the previous record of 4,994 MW set last summer on August 11, 2010. During this past summer, the load exceeded projections by over 7%. Thus, demands on SWEPCO's systems have been steadily increasing due to high demand during hot summers.

SWEPCO, as an electric public utility, is regulated by the respective public service commissions in each of the three states in which it provides service, including the Louisiana Public Service Commission (LPSC), Arkansas Public Service Commission (APSC) and the Public Utility Commission of Texas (PUCT). All of the respective commissions are charged with the responsibility of regulating service, reliability, costs, and related issues for the benefit of ratepayers. Significantly, SWEPCO, as an electric public utility has the obligation to serve, in each of the respective states. This obligation requires careful long term planning and the consideration of reliability issues, reserve requirements, transmission capacity and certainly, costs. The reliable supply of electricity is critical to the public health and to the economy of each of SWEPCO's states.

In order to consider and fully evaluate and address these issues in terms of the Transport Rule, the individual performance of each and every affected electric generation unit and any specific transmission constraints must be carefully and accurately considered and evaluated. However, system analysis has not been done, as there has not been sufficient time granted to fully analyze and address these critical issues. This lack of any meaningful analysis has also resulted in there being significant errors in the EPA's IPM, which will result in substantial and material adverse impacts. Consequently, SWEPCO requests reconsideration and stay of the Transport Rule, while these significant errors and issues, which materially and adversely affect ratepayers throughout the three state region, be fully analyzed and assessed.

SWEPCO also specifically requests that the EPA stay its anticipated action in removing allowances from the existing Clean Air Interstate Rule (CAIR) allowance accounts, so that during any period for reconsideration or judicial review, the omission reductions that have been and are being made can continue, so as to contribute to the improved air quality across the region. SWEPCO respectfully requests and urges the EPA not to dismantle the successful existing compliance structure, without providing SWEPCO and others the opportunity to seek the needed relief from the Transport Rule, which includes unreasonable reduction demands, and an inflexible compliance schedule, the impacts of which have not been correctly and fully analyzed and determined by the agency.

III. the EPA's Modeling is Fundamentally Flawed and SWEPCO Had No Notice or Opportunity to Comment on Key Errors:

In developing the proposed Transport Rule's redesign of CAIR's cap and trade system, EPA followed a process based upon the complex IPM modeling of the US Electric Power Sector. (The modeling process is discussed in more detail in the AEP Request for Reconsideration and Stay (see pp. 3-5)). The EPA then identified the proportion of each state's contributing emissions, which it projected to "contribute to" or "interfere with" the maintenance compliance by another state. Under the Transport Rule, states were included in one or more of three separate programs to reduce their annual SO₂, NO_x, and/or seasonal NO_x emissions in order to help down-wind states achieve compliance. The proposed rule also assigned annual emission budgets to each state for each pollutant and allocated emission allowances to sources within each state for the years 2012 and 2014. The 2012 emission reductions were intended to reflect continuous operation of installed controls, limited upgrades of combustion controls (for NO_x) and limited fuel switching (for SO₂). After the publication of the proposed rule in the Federal Register, the EPA provided only sixty days to review over 250 pages of regulatory language and volumes of supporting documentation and detailed modeling information. There were significant errors noted in the modeling inputs and in the various assumptions, some of which directly affect SWEPCO.

Thereafter, the EPA issued three separate notices with the last being in January 2011, which included IPM model runs still based upon incorrect inputs, examining different allocation methodologies, and compliance scenarios. Subsequently, upon receiving comments, EPA updated its models and generated scenarios that had never before been provided for public review, so as to achieve even more significant reductions in SO₂ and NO_x emissions and then proposed to expand the program into six other states for ozone-season NO_x. EPA also altered the programs that would be effective in certain states, limiting the requirements to ozone-season only reductions in Louisiana, but imposing annual SO₂ and NO_x reduction requirements that were never previously announced in Texas. All of EPA's actions affecting the regional states are significant for SWEPCO, as all generation units owned by SWEPCO, whether located in Louisiana, Arkansas or Texas, are needed to serve SWEPCO ratepayers across all three state jurisdictions.

The level of reduction required to be achieved in various states, including Arkansas, Louisiana and Texas changed materially from the proposed rule to the final rule. (See chart entitled *Comparison of Proposed to Final 2012 Budgets in AEP States* on p. 6 of AEP Request for Reconsideration and Stay)

The Transport Rule's proposed state reductions, based upon EPA's incorrect modeling, evaluated Louisiana's 2010 NO_x emissions based upon a three-year average at 23,172 (tons of NO_x), with an emission budget in 2012 and 2013 at 13,432, with emissions under budget of 9,740 for a required percentage change of -42%. The estimated impact

of the NO_x seasonal-ozone reductions for Louisiana utilities are preliminarily estimated¹ as follows:

	3-Year Average NO _x	CSAPR			
		Allocation	Percent Difference	Deficit with CSAPR	
				2012	2014
CLECO	2,760.9	1,534.2	-44.4%	(1,226.7)	(1,226.7)
ELL	6,516.0	2,609.0	-60.0%	(3,907.0)	(3,907.0)
EGSL	2,925.3	1,583.0	-45.9%	(1,342.3)	(1,342.3)
ENO	896.5	592.0	-34.0%	(304.5)	(304.5)
SWEPCO	1,150.0	630.0	-45.2%	(520.0)	(520.0)
Muni	1,637.5	806.8	-50.7%	(830.7)	(830.7)
Big Cajun 2	5,001.7	2,842.0	-43.2%	(2,159.7)	(2,159.7)
IPP	281.6	415.0	47.4%	133.4	133.4
Cogen	1,864.5	2,018.0	8.2%	153.5	153.5
Total	23,034.0	13,030.0	-43.4%	(10,004.0)	(10,004.0)

The methodology used to develop the state-by-state emission budgets is fundamentally flawed, which in turn resulted in flawed unit-by-unit allocations. SWEPCO had no notice or opportunity to comment on these key errors. For example:

1. The underlying modeling performed by EPA constrained the operation of classes of generation that are traditionally used to support periods of peak demand (that routinely occur during the ozone season, with the SWEPCO units being discussed below);
2. The model projects significant changes in coal supplies in 2012, even though most of the generating units in the Transport Rule region, including SWEPCO, have made contractual commitments to existing fuel suppliers for 2012 and beyond, so as to ensure low cost fuel and transportation;
3. The cost assumptions used in the underlying model were understated; and
4. The level of projected generation in individual states, including Louisiana, is well below levels generated in 2010. If generation were to be constrained under this false assumption, the constrained supply would affect the public health during

¹ The data set forth in the chart was presented by LPSC Staff at the September 7, 2011 Business and Executive Meeting of the LPSC. Staff also noted that Louisiana would likely run out of emission credits around July 4th, 2012 (with the ozone season running through the end of September) if the Transport Rule, as proposed, takes effect. This would result in 80 days without credits, resulting in an obvious inability to comply.

warm summer months and would further impede economic recovery and job growth.

5. As a result of the flawed model, the NO_x seasonal-ozone budget for Louisiana is significantly smaller than required for reliable electrical system operation.

EPA's modeling for unit operations is not consistent with either historical operation or expected operation under the Transport Rule requirements. As an example, within Louisiana there is over 9200 MW of generation that is assumed not to run within the Transport Rule policy case in 2012. However, most of this generation was operating during 2010 and was responsible for 26% of ozone season heat input and 43% of ozone season emissions. Many of these units are critical for grid reliability and are must-run units. Consequently, EPA has dramatically underestimated the generation requirements from within the state of Louisiana, as well as NO_x emissions.

The model includes other erroneous operating assumptions under the EPA's dispatch modeling that are specific to SWEPCO units. The EPA model assumes that the following SWEPCO Louisiana units will not run: Lieberman Units 1 through 4 and Arsenal Hill 5. These are necessary and essential peaking units, which in fact operated in 2010 and in 2011. Further, the EPA model assumes the following Texas units will not run: Knox Lee Units 2, 3, 4, and 5; Wilkes Unit 1; and Lone Star Unit 1. In fact, all of these units operated in the modeling period of 2010, as well as in the load-critical summer of 2011. Moreover, these units are projected to run again in 2012 to meet load and reliability requirements.

EPA's model also made significant erroneous assumptions concerning fuel. The model outputs incorrectly assume that Lieberman Units 3 and 4, Arsenal Hill 5, Knox Lee 4, and Wilkes 1 are fueled by oil. In fact, Arsenal Hill 5 and Knox Lee 4 are *incapable* of burning fuel oil. While some of the other units have the ability to burn oil, these units are fueled by natural gas and have been fueled by natural gas for years.

The EPA model assumed that SWEPCO will not operate the eleven (11) units identified above, representing approximately 1000 MW of capacity, which were excluded from the study. Thus, EPA must also have assumed that SWEPCO could somehow displace 1000 MW generating capacity for the 10 units by purchasing from other sources. While SWEPCO should be able to confirm a portion of the requested service by modifying redispatch requirements, some redispatch requirements would require the assistance of and contacts with unaffiliated third parties, who are under no obligation whatsoever to lend assistance to SWEPCO, a public utility with an obligation to serve. In addition, there is no study demonstrating transmission capacity will be available for delivery of this supply to SWEPCO's load or the effect transmission constraints may have on ratepayer costs.

The EPA's methodology also only allocates additional allowances to "planned" units that commence operations between January 2010 and January 2012, thus, ignoring units that will commence operations in 2012 or 2013. For example, AEP is constructing a large

ultra-supercritical coal-fired power plant, the Turk Plant in Arkansas, which is anticipated to commence operation in October 2012. Turk should have been included in the “planned” new unit allocation. Turk’s permitted NOx emissions alone are over three times the size of the total new unit set-aside, and it is expected to run as a baseload unit during ozone season, making the current set-aside grossly inadequate. Also, a new unit at the Plum Point Power Station is being constructed in Arkansas, which commenced operation during 2011, and should have been but was not included in the calculation of additional new source set-aside. In light of these under-allocations, the two newest and most efficient generators within the state of Arkansas are at risk of exceeding assurance levels due to an insufficient allocation of allowances. Thus, SWEPCO requests, as a part of the requested relief, that the allocations be increased in the affected states in which SWEPCO operates, in addition to the other relief sought herein.

There has not been sufficient time granted to conduct the precise studies necessary to determine the magnitude of the impact of the Transport Rule upon SWEPCO and its ratepayers. Thus, the modeling is substantially flawed, with the SWEPCO specific omissions and errors noted above being material. Respectfully, this alone should result in the reconsideration and stay of the effect of the Transport Rule, pending correction of the errors, followed by further study and analysis, with a request to stay the rule as it applies to Louisiana, Arkansas and Texas.

IV. SWEPCO Must Consider Compliance Issues in the Context of a Reasonable Time Frame, Meeting Reliability Requirements and the Significant Impacts Upon Its Ratepayers:

SWEPCO is a member of the Southwest Power Pool (SPP), a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO). On September 20, 2011, the SPP corresponded with you as the Administrator of the EPA and advised that the SPP is “concerned that the Environmental Protection Agency finalized the Cross State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region.”² (See Exhibit “A”)

In expressing its reliability concerns, Mr. Nicholas Brown, President and CEO of SPP, along with others, noted the following:

“FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well-vetted industry process identifying key requirements to ensure that bulk electric systems meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably, as well as subject SPP and its members to financial penalties. These standards require that SPP’s Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits

² The term Transport Rule is used throughout except when including specific quotations which use the acronym CSAPR.

in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.” (Emphasis added)

Thus, there are very serious reliability issues which those with particular expertise in the area, including the SPP, have identified. The SPP goes on to explain that the result of its “reliability assessment of the CSAPR IPM generation dispatch indicates serious negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling black-outs or cascading outages that would likely have significant impacts on human health, public safety, and commercial activity within SPP.” The SPP further notes, and SWEPCO concurs, that the time period between “finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.” Reliability is not an issue with which the utilities, the FERC or hopefully, the EPA are willing to take risk, as reliability affects every individual, industry, business and ratepayer throughout the region.

NERC also establishes reliability standards, including reserve requirements, which must be considered. In its analysis, the SPP also noted, “Our reliability modeling indicates that the CSAPR Integrated Planning Model 4.1 (IMP) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012.” (Emphasis added) Thus, SWEPCO, and other utilities, may be in a situation where they cannot comply with NERC standards, and also comply with the Transport Rule as proposed by the agency.

SWEPCO carefully forecasts and plans many years in advance to determine generation and transmission needs. However, this planning process has been upset by the fact that SWEPCO did not receive sufficient allowances under the Transport Rule to meet its jurisdictional retail load. Given the very short time allotted for compliance, SWEPCO is considering a multi-faceted compliance approach, all of which affects reliability and increases costs to our ratepayers, and none of which was accurately predicted or taken into account by EPA in the final rule.

Our compliance plan likely will include a mix of the following:

1. Re-dispatching: We also particularly note that the coal units, such as Welsh, are designed to run as baseload units, and are not designed to run at lower levels and then ramp up where necessary. The engineers at SWEPCO, some of which have over 30 years of experience with these particular generating units, are concerned about the mechanical ability of these units to perform under these circumstances. Specifically, the long term impact in terms of additional maintenance, higher O&M costs, outages and other mechanical issues is unclear.

2. Purchased Power: The other issues to consider for compliance in such a short time-frame include the availability of power for purchase within the SPP market. However, SWEPCO cannot fully assess the market availability in view of the Transport Rule, with other companies simultaneously attempting to develop their own compliance and purchase plans, some of which may include retirement of existing capacity. Certainly, power availability is expected to be less than normal; thus, again resulting in higher costs to ratepayers. As mentioned above, technical transmission constraints may compound the decreased availability of market power, increasing prices even further.

3. Air Emissions Controls: SWEPCO is evaluating technical emission controls, which include installing low NOx burners and over-fire air systems, for example, at Flint Creek for operation in the 2013 ozone season (May to September). Further, SWEPCO and Central Louisiana Electric Company (CLECO) jointly own the Dolet Hills Power Plant in Mansfield, Louisiana, and it will be necessary to install a Selective Non-Catalytic Reduction (SNCR) system. There are timing and cost risks associated with these actions, because other companies are taking similar actions during the very short time allotted. There will be significant competition for material and labor; thus, again affecting ratepayers.

4. Allowance Purchases: SWEPCO will also be considering purchasing emission allowances as available, in order to compensate for shortfalls. There are risks associated with this strategy, in that if states exceed their assurance limits, there could be penalties associated with the purchases of allowances. Additionally, the availability of allowances is uncertain.

All of the above are compliance actions being considered solely to comply with the Transport Rule. However, compliance with the Transport Rule and the other proposed EPA rulemakings, are estimated to cost approximately \$1.3 billion dollars for SWEPCO alone, which costs will materially affect rates and our ratepayers.

V. Conclusion:

SWEPCO appreciates the opportunity to submit this Request for Reconsideration and Stay, particularly in light of the significant adverse impacts upon SWEPCO and ratepayers throughout SWEPCO's service territory in the states of Louisiana, Arkansas and Texas. SWEPCO also notes and appreciates the dialogue between the Agency and AEP, which has continued since the publication of the final Transport Rule. However, there were fundamental errors in the modeling that adversely affect the ability of SWEPCO to provide reliable and low-cost power to its ratepayers throughout the three states, and which can adversely affect every industry, business and all residents residing in SWEPCO's service territory.

SWEPCO respectfully requests that in light of the particular issues raised hereinabove, and in light of the requests, that the Administrator grant reconsideration of the issues identified herein, and that the Administrator stay the effectiveness of the final rule, while

maintaining the CAIR allowances currently in the compliance accounts for CAIR units, in order to maintain and continue the improvements in air quality achieved to date, with all appropriate remedies including those discussed hereinabove.

Respectfully submitted:

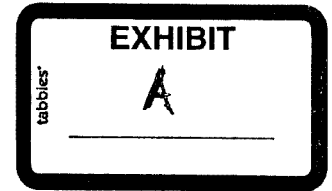
A handwritten signature in black ink, reading "Venita McCellon-Allen". The signature is written in a cursive, flowing style.

Venita McCellon-Allen
President and COO
Southwestern Electric Power Company

cc: Bobby S. Gilliam and Jonathan P. McCartney, Wilkinson, Carmody & Gilliam
Janet J. Henry, Deputy General Counsel, American Electric Power
Commissioners of the Louisiana Public Service Commission
Commissioners of the Arkansas Public Service Commission
Commissioners of the Public Utility Commission of Texas

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

September 20, 2011



Administrator Lisa P. Jackson
USEPA Headquarters
Ariel Rios Building
1200 Pennsylvania Avenue, N. W.
Mail Code: 1101A
Washington, DC 20460

Re: SPP's Review of the EPA's IPM Analysis of the Cross-State Air Pollution Rule, Docket ID No. EPA-HQ-OAR-2009-0491

Dear Ms. Jackson:

Southwest Power Pool, Inc. (SPP), in its capacity as a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) and a Regional Entity, is concerned that the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region. SPP originally expressed concern with the reliability impacts of proposed regulations¹ in its July 19, 2011 comment letter to the EPA.

As required by the Energy Policy Act of 2005, FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well vetted industry process identifying key requirements to ensure the bulk electric system meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably as well subject SPP and its members to financial penalties. These standards require that SPP's Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.

Our reliability modeling² indicates that the CSAPR Integrated Planning Model 4.1 (IPM) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012. SPP's planning models identified 5.4 GW from the 48 generation units identified by the EPA with zero fuel burn in 2012 that would have been dispatched during the 2012

¹ On July 19, 2011, Nicholas A. Brown, SPP President and CEO, submitted comments to the EPA in Docket ID Nos. EPA-HQ-OW-2008-0667, EPA-HQ-OAR-2009-0234, and EPA-HQ-OAR-2011-0044, additionally providing SPP's preliminary assessment of the potential reliability impacts of proposed EPA regulations impacting generation in the SPP footprint.

² SPP removed all generation units in its models that consumed zero fuel in the EPA models. No other SPP model adjustments were made.

Summer Peak conditions. Our analysis revealed 220 overloads in excess of the required, 100% of emergency ratings under contingencies, and 1047 circumstances at various locations on the transmission system where voltage was below the prescribed lower limit of 90% of nominal rating. The statistics in this analysis must be viewed as being indicative, not definitive, results and are probably very conservative compared to what would be experienced in the real world should the modeled system conditions exist. An even clearer representation of reliability violations can be found by applying higher operability limits of 120% to the overloads. There were 16 such overloads on the system. Using a similar out of normal range there were 93 circumstances where voltage dropped below 85% of nominal. These “clear-cut” examples of standards violations represent the well founded concerns regarding the timeline with which the CSAPR would be instituted.

Additionally, 30 contingency scenarios did not solve, which is indicative of extreme system constraints, including the potential of cascading blackouts similar to what occurred in 2003 or which could require the shedding of firm load (that is, localized rolling black-outs initiated by utilities within the SPP region) to avoid more widespread and uncontrolled blackouts and to remain in compliance with reliability standards. Some of the contingencies could be resolved with other short-term transmission and/or resource solutions, but several could not. In those cases, SPP would be in clear violation of mandatory reliability standards and subject to penalty from FERC. However, SPP cannot be compliant with NERC’s planning standards without placing its generation owners in violation of EPA standards when the unutilized units in the IPM are unavailable to SPP. Further exacerbating this situation, SPP’s analysis also revealed that generation production from “small units”³ increased from 13 to 57 units deployed. Some of these units are likely subject to the reciprocating internal combustion engines (RICE) regulations, which were not evaluated as part of this reliability study. If we look beyond the summer peak hour studied, the unavailability of approximately 11 GWs⁴ of total capacity from the EPA model in SPP’s footprint would likely result in additional localized reliability issues.

The result of SPP’s reliability assessment of the EPA’s CSAPR IPM generation dispatch indicates serious, negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling blackouts or cascading outages that would likely have significant impacts on human health, public safety and commercial activity within SPP. These regulations further compound the reliability impacts addressed by SPP in its July 19, 2011 comment letter, which focused on the MACT regulations to be enacted in 2014/15. The time period between finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.

SPP supports a more flexible approach to meeting the emission requirements under the CSAPR, as stated in a joint letter from the New York Independent System Operator, Midwest Independent System Operator, PJM Regional Transmission Organization, the Electric Reliability Council of Texas, and SPP to the EPA in August. The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, SPP and its members may be placed in the untenable position of deciding which agency’s rules to violate, FERC or EPA. Putting an

³ “Small units” denotes those units generating 25 megawatts or less per unit.

⁴ Although the EPA model had additional units and capacity with zero fuel burn in 2012 (10.7 - 10.9 GW in total depending on the source of the Pmax), many of these units which were not dispatched in our 2012summer model will be needed during off-peak load periods to accommodate outages and to maintain system reliability.



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TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

industry with critical infrastructure in the position of choosing which agency's rules to violate is bad public policy. SPP suggests that the EPA delay CSAPR's effective date at least a year to allow for investigating, planning, and developing solutions to assist our members in maintaining grid reliability and compliance with both its current regulatory bodies and all of the EPA regulations that impact the electric industry.

Your prompt attention to this matter is greatly appreciated. Please do not hesitate to contact me if you have any questions or would like to discuss this matter further.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Nick Brown", written in a cursive style.

Nicholas A. Brown
President & CEO
Southwest Power Pool, Inc.
(501) 614-3213 • Fax: (501) 664-9553 • nbrown@spp.org

A handwritten signature in dark ink, appearing to read "John Meyer", written in a cursive style.

John Meyer
Chairman and Trustee
Southwest Power Pool Regional Entity

A handwritten signature in dark ink, appearing to read "David Christiano", written in a cursive style.

David Christiano
Trustee
Southwest Power Pool Regional Entity

A handwritten signature in dark ink, appearing to read "Gerry Burrows", written in a cursive style.

Gerry Burrows
Trustee
Southwest Power Pool Regional Entity

cc: SPP Board of Directors
SPP Regional State Committee
SPP Strategic Planning Committee
State Regulators in Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico,
Oklahoma, and Texas



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TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

Congressional Delegations of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
Governors of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
North American Electric Reliability Corporation
President Barack Obama
Secretary of Energy Dr. Steven Chu
Federal Energy Regulatory Commission

October 5, 2011

Via Overnight and Electronic Mail

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Room 3000, Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460
(jackson.lisa@epa.gov)

Re: Request of Southwestern Electric Power Company (SWEPCO) for
Reconsideration and for Stay of *Federal Implementation Plans to Reduce
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2009-0491

Dear Administrator Jackson:

We are submitting this Request for Reconsideration and Stay to the U.S. Environmental Protection Agency (“EPA” and/or “agency”) on behalf of Southwestern Electric Power Company (SWEPCO), an electric public utility that has and continues to serve Northwest Louisiana, East Texas, and Western Arkansas. SWEPCO has carefully reviewed the final rule entitled *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, published at 76 Fed. Reg. 48208 (August 8, 2011), (hereinafter referred to as the “Transport Rule”) including the material changes to the rule between its original proposal and the final version. SWEPCO has reviewed particularly the significant issues concerning the revision of state budgets based on new modeling which contains erroneous assumptions. The new proposed rule, based on this modeling, adopts an inflexible trading system that combines new and significantly different reductions in emissions with an implementation date that is less than 6 months from the public release of the rule. These mandated reductions in such a short time period without an adequate means to comply will result in immediate and irreparable harm to states, utilities, such as SWEPCO, and particularly, to all of SWEPCO’s ratepayers. In light of the foregoing, SWEPCO respectfully requests reconsideration and stay of the Transport Rule.

**I. SWEPCO Adopts and Joins in the Request for Reconsideration and Stay by
American Electric Power and the Louisiana Public Service Commission**

In submitting this Request for Reconsideration and Stay, SWEPCO also notes that it is an operating company of American Electric Power System (collectively referred to herein as

“AEP”). SWEPCO hereby adopts the comments of AEP, in its Request for Reconsideration and Stay, such that there is no need to repeat all of the significant issues raised in the Request submitted by AEP. However, while adopting and incorporating the comments and material issues raised in the AEP Request for Reconsideration and Stay, SWEPCO as an electric public utility, also submits these comments, noting the specific negative impacts upon SWEPCO and its ratepayers, resulting from the implementation of the Transport Rule on the terms and within the timeframe currently proposed. This Request will require a specific discussion of SWEPCO’s generating and transmission assets and the adverse effects as to reliability and costs resulting from the Transport Rule, as proposed.

SWEPCO also notes that the Louisiana Public Service Commission (LPSC), an entity established directly by Louisiana Constitution in Article VI, Sections 3 through 9, is also filing a separate Request for Reconsideration and Stay of the Transport Rule. The LPSC took this significant action, due to the material adverse impacts upon the State of Louisiana, the public utilities in Louisiana, and particularly, the ratepayers throughout Louisiana. SWEPCO also supports the Request for Reconsideration and Stay by the LPSC and the material issues and impacts discussed therein. However, SWEPCO files its Request for Reconsideration and Stay, in order to set forth the specific issues resulting from the implementation of the Transport Rule as proposed, including but not limited to the need for analysis of the individual electric generating units, as well as and the ability to evaluate local transmission constraints in order to fully evaluate all reliability, costs and other impacts upon SWEPCO and its ratepayers.

In addition to faulty modeling, the EPA’s Integrated Planning Model (IPM) does not incorporate or include this type of analysis, which is essential to determine the actual impacts upon ratepayers, who are entitled to and are reliant upon reliable and low cost service.

II. Southwestern Electric Power Company, an Electric Public Utility with an Obligation to Provide Reliable Service at Reasonable Costs, Requests EPA to Reconsider and Stay its Transport Rule:

SWEPCO and its predecessors have served ratepayers throughout Northwest Louisiana, East Texas and Northwest Arkansas for about a century. SWEPCO’s corporate headquarters are located in Shreveport, Louisiana, with SWEPCO serving rural and metropolitan customers throughout the tri-state region. Some of the metropolitan areas include Shreveport and Bossier City in Northwest Louisiana, including Barksdale Air Force Base; Longview, Marshall and Texarkana in East Texas, including US Steel; and Texarkana and Fayetteville in Arkansas, including the University of Arkansas. In addition, SWEPCO provides service to eight wholesale customers, including several rural electric cooperatives and the city of Bentonville, Arkansas, which houses Wal-Mart’s world headquarters.

SWEPCO is an electric public utility that has consistently provided reliable service to its ratepayers, while maintaining some of the lowest rates in the region. In order to

accomplish these objectives, SWEPCO uses a diversified fuel mix, so as to ensure continued reliability and low rates, including natural gas, Wyoming low-sulfur coal, and locally-mined lignite. The most recent addition to its generating fleet is the J. Lamar Stall Unit at Arsenal Hill in Shreveport, a 508 MW combined cycle, natural gas unit. SWEPCO's solid fuel units are primarily baseload units, with the Stall Unit at Arsenal Hill being an example of an intermediate unit, and with older, higher-cost gas units serving as peaking units. All of SWEPCO's capacity was put to use during the summer of 2011, with SWEPCO reaching an all-time new peak of 5,543 MW on August 3rd. Additional high demands were set on August 2nd with 5,457 MW, and on August 1st with 5,370 MW. All of these peak loads exceeded the previous record of 4,994 MW set last summer on August 11, 2010. During this past summer, the load exceeded projections by over 7%. Thus, demands on SWEPCO's systems have been steadily increasing due to high demand during hot summers.

SWEPCO, as an electric public utility, is regulated by the respective public service commissions in each of the three states in which it provides service, including the Louisiana Public Service Commission (LPSC), Arkansas Public Service Commission (APSC) and the Public Utility Commission of Texas (PUCT). All of the respective commissions are charged with the responsibility of regulating service, reliability, costs, and related issues for the benefit of ratepayers. Significantly, SWEPCO, as an electric public utility has the obligation to serve, in each of the respective states. This obligation requires careful long term planning and the consideration of reliability issues, reserve requirements, transmission capacity and certainly, costs. The reliable supply of electricity is critical to the public health and to the economy of each of SWEPCO's states.

In order to consider and fully evaluate and address these issues in terms of the Transport Rule, the individual performance of each and every affected electric generation unit and any specific transmission constraints must be carefully and accurately considered and evaluated. However, system analysis has not been done, as there has not been sufficient time granted to fully analyze and address these critical issues. This lack of any meaningful analysis has also resulted in there being significant errors in the EPA's IPM, which will result in substantial and material adverse impacts. Consequently, SWEPCO requests reconsideration and stay of the Transport Rule, while these significant errors and issues, which materially and adversely affect ratepayers throughout the three state region, be fully analyzed and assessed.

SWEPCO also specifically requests that the EPA stay its anticipated action in removing allowances from the existing Clean Air Interstate Rule (CAIR) allowance accounts, so that during any period for reconsideration or judicial review, the omission reductions that have been and are being made can continue, so as to contribute to the improved air quality across the region. SWEPCO respectfully requests and urges the EPA not to dismantle the successful existing compliance structure, without providing SWEPCO and others the opportunity to seek the needed relief from the Transport Rule, which includes unreasonable reduction demands, and an inflexible compliance schedule, the impacts of which have not been correctly and fully analyzed and determined by the agency.

III. the EPA's Modeling is Fundamentally Flawed and SWEPCO Had No Notice or Opportunity to Comment on Key Errors:

In developing the proposed Transport Rule's redesign of CAIR's cap and trade system, EPA followed a process based upon the complex IPM modeling of the US Electric Power Sector. (The modeling process is discussed in more detail in the AEP Request for Reconsideration and Stay (see pp. 3-5)). The EPA then identified the proportion of each state's contributing emissions, which it projected to "contribute to" or "interfere with" the maintenance compliance by another state. Under the Transport Rule, states were included in one or more of three separate programs to reduce their annual SO₂, NO_x, and/or seasonal NO_x emissions in order to help down-wind states achieve compliance. The proposed rule also assigned annual emission budgets to each state for each pollutant and allocated emission allowances to sources within each state for the years 2012 and 2014. The 2012 emission reductions were intended to reflect continuous operation of installed controls, limited upgrades of combustion controls (for NO_x) and limited fuel switching (for SO₂). After the publication of the proposed rule in the Federal Register, the EPA provided only sixty days to review over 250 pages of regulatory language and volumes of supporting documentation and detailed modeling information. There were significant errors noted in the modeling inputs and in the various assumptions, some of which directly affect SWEPCO.

Thereafter, the EPA issued three separate notices with the last being in January 2011, which included IPM model runs still based upon incorrect inputs, examining different allocation methodologies, and compliance scenarios. Subsequently, upon receiving comments, EPA updated its models and generated scenarios that had never before been provided for public review, so as to achieve even more significant reductions in SO₂ and NO_x emissions and then proposed to expand the program into six other states for ozone-season NO_x. EPA also altered the programs that would be effective in certain states, limiting the requirements to ozone-season only reductions in Louisiana, but imposing annual SO₂ and NO_x reduction requirements that were never previously announced in Texas. All of EPA's actions affecting the regional states are significant for SWEPCO, as all generation units owned by SWEPCO, whether located in Louisiana, Arkansas or Texas, are needed to serve SWEPCO ratepayers across all three state jurisdictions.

The level of reduction required to be achieved in various states, including Arkansas, Louisiana and Texas changed materially from the proposed rule to the final rule. (See chart entitled *Comparison of Proposed to Final 2012 Budgets in AEP States* on p. 6 of AEP Request for Reconsideration and Stay)

The Transport Rule's proposed state reductions, based upon EPA's incorrect modeling, evaluated Louisiana's 2010 NO_x emissions based upon a three-year average at 23,172 (tons of NO_x), with an emission budget in 2012 and 2013 at 13,432, with emissions under budget of 9,740 for a required percentage change of -42%. The estimated impact

of the NOx seasonal-ozone reductions for Louisiana utilities are preliminarily estimated¹ as follows:

	3-Year Average NOx	CSAPR			
		Allocation	Percent Difference	Deficit with CSAPR	
				2012	2014
CLECO	2,760.9	1,534.2	-44.4%	(1,226.7)	(1,226.7)
ELL	6,516.0	2,609.0	-60.0%	(3,907.0)	(3,907.0)
EGSL	2,925.3	1,583.0	-45.9%	(1,342.3)	(1,342.3)
ENO	896.5	592.0	-34.0%	(304.5)	(304.5)
SWEPCO	1,150.0	630.0	-45.2%	(520.0)	(520.0)
Muni	1,637.5	806.8	-50.7%	(830.7)	(830.7)
Big Cajun 2	5,001.7	2,842.0	-43.2%	(2,159.7)	(2,159.7)
IPP	281.6	415.0	47.4%	133.4	133.4
Cogen	1,864.5	2,018.0	8.2%	153.5	153.5
Total	23,034.0	13,030.0	-43.4%	(10,004.0)	(10,004.0)

The methodology used to develop the state-by-state emission budgets is fundamentally flawed, which in turn resulted in flawed unit-by-unit allocations. SWEPCO had no notice or opportunity to comment on these key errors. For example:

1. The underlying modeling performed by EPA constrained the operation of classes of generation that are traditionally used to support periods of peak demand (that routinely occur during the ozone season, with the SWEPCO units being discussed below);
2. The model projects significant changes in coal supplies in 2012, even though most of the generating units in the Transport Rule region, including SWEPCO, have made contractual commitments to existing fuel suppliers for 2012 and beyond, so as to ensure low cost fuel and transportation;
3. The cost assumptions used in the underlying model were understated; and
4. The level of projected generation in individual states, including Louisiana, is well below levels generated in 2010. If generation were to be constrained under this false assumption, the constrained supply would affect the public health during

¹ The data set forth in the chart was presented by LPSC Staff at the September 7, 2011 Business and Executive Meeting of the LPSC. Staff also noted that Louisiana would likely run out of emission credits around July 4th, 2012 (with the ozone season running through the end of September) if the Transport Rule, as proposed, takes effect. This would result in 80 days without credits, resulting in an obvious inability to comply.

warm summer months and would further impede economic recovery and job growth.

5. As a result of the flawed model, the NO_x seasonal-ozone budget for Louisiana is significantly smaller than required for reliable electrical system operation.

EPA's modeling for unit operations is not consistent with either historical operation or expected operation under the Transport Rule requirements. As an example, within Louisiana there is over 9200 MW of generation that is assumed not to run within the Transport Rule policy case in 2012. However, most of this generation was operating during 2010 and was responsible for 26% of ozone season heat input and 43% of ozone season emissions. Many of these units are critical for grid reliability and are must-run units. Consequently, EPA has dramatically underestimated the generation requirements from within the state of Louisiana, as well as NO_x emissions.

The model includes other erroneous operating assumptions under the EPA's dispatch modeling that are specific to SWEPCO units. The EPA model assumes that the following SWEPCO Louisiana units will not run: Lieberman Units 1 through 4 and Arsenal Hill 5. These are necessary and essential peaking units, which in fact operated in 2010 and in 2011. Further, the EPA model assumes the following Texas units will not run: Knox Lee Units 2, 3, 4, and 5; Wilkes Unit 1; and Lone Star Unit 1. In fact, all of these units operated in the modeling period of 2010, as well as in the load-critical summer of 2011. Moreover, these units are projected to run again in 2012 to meet load and reliability requirements.

EPA's model also made significant erroneous assumptions concerning fuel. The model outputs incorrectly assume that Lieberman Units 3 and 4, Arsenal Hill 5, Knox Lee 4, and Wilkes 1 are fueled by oil. In fact, Arsenal Hill 5 and Knox Lee 4 are *incapable* of burning fuel oil. While some of the other units have the ability to burn oil, these units are fueled by natural gas and have been fueled by natural gas for years.

The EPA model assumed that SWEPCO will not operate the eleven (11) units identified above, representing approximately 1000 MW of capacity, which were excluded from the study. Thus, EPA must also have assumed that SWEPCO could somehow displace 1000 MW generating capacity for the 10 units by purchasing from other sources. While SWEPCO should be able to confirm a portion of the requested service by modifying redispatch requirements, some redispatch requirements would require the assistance of and contacts with unaffiliated third parties, who are under no obligation whatsoever to lend assistance to SWEPCO, a public utility with an obligation to serve. In addition, there is no study demonstrating transmission capacity will be available for delivery of this supply to SWEPCO's load or the effect transmission constraints may have on ratepayer costs.

The EPA's methodology also only allocates additional allowances to "planned" units that commence operations between January 2010 and January 2012, thus, ignoring units that will commence operations in 2012 or 2013. For example, AEP is constructing a large

ultra-supercritical coal-fired power plant, the Turk Plant in Arkansas, which is anticipated to commence operation in October 2012. Turk should have been included in the “planned” new unit allocation. Turk’s permitted NOx emissions alone are over three times the size of the total new unit set-aside, and it is expected to run as a baseload unit during ozone season, making the current set-aside grossly inadequate. Also, a new unit at the Plum Point Power Station is being constructed in Arkansas, which commenced operation during 2011, and should have been but was not included in the calculation of additional new source set-aside. In light of these under-allocations, the two newest and most efficient generators within the state of Arkansas are at risk of exceeding assurance levels due to an insufficient allocation of allowances. Thus, SWEPCO requests, as a part of the requested relief, that the allocations be increased in the affected states in which SWEPCO operates, in addition to the other relief sought herein.

There has not been sufficient time granted to conduct the precise studies necessary to determine the magnitude of the impact of the Transport Rule upon SWEPCO and its ratepayers. Thus, the modeling is substantially flawed, with the SWEPCO specific omissions and errors noted above being material. Respectfully, this alone should result in the reconsideration and stay of the effect of the Transport Rule, pending correction of the errors, followed by further study and analysis, with a request to stay the rule as it applies to Louisiana, Arkansas and Texas.

IV. SWEPCO Must Consider Compliance Issues in the Context of a Reasonable Time Frame, Meeting Reliability Requirements and the Significant Impacts Upon Its Ratepayers:

SWEPCO is a member of the Southwest Power Pool (SPP), a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO). On September 20, 2011, the SPP corresponded with you as the Administrator of the EPA and advised that the SPP is “concerned that the Environmental Protection Agency finalized the Cross State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region.”² (See Exhibit “A”)

In expressing its reliability concerns, Mr. Nicholas Brown, President and CEO of SPP, along with others, noted the following:

“FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well-vetted industry process identifying key requirements to ensure that bulk electric systems meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably, as well as subject SPP and its members to financial penalties. These standards require that SPP’s Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits

² The term Transport Rule is used throughout except when including specific quotations which use the acronym CSAPR.

in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.” (Emphasis added)

Thus, there are very serious reliability issues which those with particular expertise in the area, including the SPP, have identified. The SPP goes on to explain that the result of its “reliability assessment of the CSAPR IPM generation dispatch indicates serious negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling black-outs or cascading outages that would likely have significant impacts on human health, public safety, and commercial activity within SPP.” The SPP further notes, and SWEPCO concurs, that the time period between “finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.” Reliability is not an issue with which the utilities, the FERC or hopefully, the EPA are willing to take risk, as reliability affects every individual, industry, business and ratepayer throughout the region.

NERC also establishes reliability standards, including reserve requirements, which must be considered. In its analysis, the SPP also noted, “Our reliability modeling indicates that the CSAPR Integrated Planning Model 4.1 (IMP) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012.” (Emphasis added) Thus, SWEPCO, and other utilities, may be in a situation where they cannot comply with NERC standards, and also comply with the Transport Rule as proposed by the agency.

SWEPCO carefully forecasts and plans many years in advance to determine generation and transmission needs. However, this planning process has been upset by the fact that SWEPCO did not receive sufficient allowances under the Transport Rule to meet its jurisdictional retail load. Given the very short time allotted for compliance, SWEPCO is considering a multi-faceted compliance approach, all of which affects reliability and increases costs to our ratepayers, and none of which was accurately predicted or taken into account by EPA in the final rule.

Our compliance plan likely will include a mix of the following:

1. Re-dispatching: We also particularly note that the coal units, such as Welsh, are designed to run as baseload units, and are not designed to run at lower levels and then ramp up where necessary. The engineers at SWEPCO, some of which have over 30 years of experience with these particular generating units, are concerned about the mechanical ability of these units to perform under these circumstances. Specifically, the long term impact in terms of additional maintenance, higher O&M costs, outages and other mechanical issues is unclear.

2. Purchased Power: The other issues to consider for compliance in such a short time-frame include the availability of power for purchase within the SPP market. However, SWEPCO cannot fully assess the market availability in view of the Transport Rule, with other companies simultaneously attempting to develop their own compliance and purchase plans, some of which may include retirement of existing capacity. Certainly, power availability is expected to be less than normal; thus, again resulting in higher costs to ratepayers. As mentioned above, technical transmission constraints may compound the decreased availability of market power, increasing prices even further.

3. Air Emissions Controls: SWEPCO is evaluating technical emission controls, which include installing low NOx burners and over-fire air systems, for example, at Flint Creek for operation in the 2013 ozone season (May to September). Further, SWEPCO and Central Louisiana Electric Company (CLECO) jointly own the Dolet Hills Power Plant in Mansfield, Louisiana, and it will be necessary to install a Selective Non-Catalytic Reduction (SNCR) system. There are timing and cost risks associated with these actions, because other companies are taking similar actions during the very short time allotted. There will be significant competition for material and labor; thus, again affecting ratepayers.

4. Allowance Purchases: SWEPCO will also be considering purchasing emission allowances as available, in order to compensate for shortfalls. There are risks associated with this strategy, in that if states exceed their assurance limits, there could be penalties associated with the purchases of allowances. Additionally, the availability of allowances is uncertain.

All of the above are compliance actions being considered solely to comply with the Transport Rule. However, compliance with the Transport Rule and the other proposed EPA rulemakings, are estimated to cost approximately \$1.3 billion dollars for SWEPCO alone, which costs will materially affect rates and our ratepayers.

V. Conclusion:

SWEPCO appreciates the opportunity to submit this Request for Reconsideration and Stay, particularly in light of the significant adverse impacts upon SWEPCO and ratepayers throughout SWEPCO's service territory in the states of Louisiana, Arkansas and Texas. SWEPCO also notes and appreciates the dialogue between the Agency and AEP, which has continued since the publication of the final Transport Rule. However, there were fundamental errors in the modeling that adversely affect the ability of SWEPCO to provide reliable and low-cost power to its ratepayers throughout the three states, and which can adversely affect every industry, business and all residents residing in SWEPCO's service territory.

SWEPCO respectfully requests that in light of the particular issues raised hereinabove, and in light of the requests, that the Administrator grant reconsideration of the issues identified herein, and that the Administrator stay the effectiveness of the final rule, while

maintaining the CAIR allowances currently in the compliance accounts for CAIR units, in order to maintain and continue the improvements in air quality achieved to date, with all appropriate remedies including those discussed hereinabove.

Respectfully submitted:

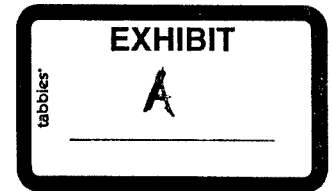
A handwritten signature in black ink, reading "Venita McCellon-Allen". The signature is written in a cursive, flowing style.

Venita McCellon-Allen
President and COO
Southwestern Electric Power Company

cc: Bobby S. Gilliam and Jonathan P. McCartney, Wilkinson, Carmody & Gilliam
Janet J. Henry, Deputy General Counsel, American Electric Power
Commissioners of the Louisiana Public Service Commission
Commissioners of the Arkansas Public Service Commission
Commissioners of the Public Utility Commission of Texas

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

September 20, 2011



Administrator Lisa P. Jackson
USEPA Headquarters
Ariel Rios Building
1200 Pennsylvania Avenue, N. W.
Mail Code: 1101A
Washington, DC 20460

Re: SPP's Review of the EPA's IPM Analysis of the Cross-State Air Pollution Rule, Docket ID No. EPA-HQ-OAR-2009-0491

Dear Ms. Jackson:

Southwest Power Pool, Inc. (SPP), in its capacity as a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) and a Regional Entity, is concerned that the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region. SPP originally expressed concern with the reliability impacts of proposed regulations¹ in its July 19, 2011 comment letter to the EPA.

As required by the Energy Policy Act of 2005, FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well vetted industry process identifying key requirements to ensure the bulk electric system meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably as well subject SPP and its members to financial penalties. These standards require that SPP's Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.

Our reliability modeling² indicates that the CSAPR Integrated Planning Model 4.1 (IPM) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012. SPP's planning models identified 5.4 GW from the 48 generation units identified by the EPA with zero fuel burn in 2012 that would have been dispatched during the 2012

¹ On July 19, 2011, Nicholas A. Brown, SPP President and CEO, submitted comments to the EPA in Docket ID Nos. EPA-HQ-OW-2008-0667, EPA-HQ-OAR-2009-0234, and EPA-HQ-OAR-2011-0044, additionally providing SPP's preliminary assessment of the potential reliability impacts of proposed EPA regulations impacting generation in the SPP footprint.

² SPP removed all generation units in its models that consumed zero fuel in the EPA models. No other SPP model adjustments were made.

Summer Peak conditions. Our analysis revealed 220 overloads in excess of the required, 100% of emergency ratings under contingencies, and 1047 circumstances at various locations on the transmission system where voltage was below the prescribed lower limit of 90% of nominal rating. The statistics in this analysis must be viewed as being indicative, not definitive, results and are probably very conservative compared to what would be experienced in the real world should the modeled system conditions exist. An even clearer representation of reliability violations can be found by applying higher operability limits of 120% to the overloads. There were 16 such overloads on the system. Using a similar out of normal range there were 93 circumstances where voltage dropped below 85% of nominal. These “clear-cut” examples of standards violations represent the well founded concerns regarding the timeline with which the CSAPR would be instituted.

Additionally, 30 contingency scenarios did not solve, which is indicative of extreme system constraints, including the potential of cascading blackouts similar to what occurred in 2003 or which could require the shedding of firm load (that is, localized rolling black-outs initiated by utilities within the SPP region) to avoid more widespread and uncontrolled blackouts and to remain in compliance with reliability standards. Some of the contingencies could be resolved with other short-term transmission and/or resource solutions, but several could not. In those cases, SPP would be in clear violation of mandatory reliability standards and subject to penalty from FERC. However, SPP cannot be compliant with NERC’s planning standards without placing its generation owners in violation of EPA standards when the unutilized units in the IPM are unavailable to SPP. Further exacerbating this situation, SPP’s analysis also revealed that generation production from “small units”³ increased from 13 to 57 units deployed. Some of these units are likely subject to the reciprocating internal combustion engines (RICE) regulations, which were not evaluated as part of this reliability study. If we look beyond the summer peak hour studied, the unavailability of approximately 11 GWs⁴ of total capacity from the EPA model in SPP’s footprint would likely result in additional localized reliability issues.

The result of SPP’s reliability assessment of the EPA’s CSAPR IPM generation dispatch indicates serious, negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling blackouts or cascading outages that would likely have significant impacts on human health, public safety and commercial activity within SPP. These regulations further compound the reliability impacts addressed by SPP in its July 19, 2011 comment letter, which focused on the MACT regulations to be enacted in 2014/15. The time period between finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.

SPP supports a more flexible approach to meeting the emission requirements under the CSAPR, as stated in a joint letter from the New York Independent System Operator, Midwest Independent System Operator, PJM Regional Transmission Organization, the Electric Reliability Council of Texas, and SPP to the EPA in August. The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, SPP and its members may be placed in the untenable position of deciding which agency’s rules to violate, FERC or EPA. Putting an

³ “Small units” denotes those units generating 25 megawatts or less per unit.

⁴ Although the EPA model had additional units and capacity with zero fuel burn in 2012 (10.7 - 10.9 GW in total depending on the source of the Pmax), many of these units which were not dispatched in our 2012summer model will be needed during off-peak load periods to accommodate outages and to maintain system reliability.



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industry with critical infrastructure in the position of choosing which agency's rules to violate is bad public policy. SPP suggests that the EPA delay CSAPR's effective date at least a year to allow for investigating, planning, and developing solutions to assist our members in maintaining grid reliability and compliance with both its current regulatory bodies and all of the EPA regulations that impact the electric industry.

Your prompt attention to this matter is greatly appreciated. Please do not hesitate to contact me if you have any questions or would like to discuss this matter further.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Nick Brown".

Nicholas A. Brown
President & CEO
Southwest Power Pool, Inc.
(501) 614-3213 • Fax: (501) 664-9553 • nbrown@spp.org

A handwritten signature in cursive script, appearing to read "John Meyer".

John Meyer
Chairman and Trustee
Southwest Power Pool Regional Entity

A handwritten signature in cursive script, appearing to read "David J. Christiano".

David Christiano
Trustee
Southwest Power Pool Regional Entity

A handwritten signature in cursive script, appearing to read "Gerry Burrows".

Gerry Burrows
Trustee
Southwest Power Pool Regional Entity

cc: SPP Board of Directors
SPP Regional State Committee
SPP Strategic Planning Committee
State Regulators in Arkansas, Kansas, Louisiana, Mississippi, Nebraska, New Mexico,
Oklahoma, and Texas



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Congressional Delegations of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
Governors of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
North American Electric Reliability Corporation
President Barack Obama
Secretary of Energy Dr. Steven Chu
Federal Energy Regulatory Commission

October 5, 2011

Via Overnight and Electronic Mail

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Room 3000, Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460
(jackson.lisa@epa.gov)

Re: Request of Southwestern Electric Power Company (SWEPCO) for Reconsideration and for Stay of *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, 76 Fed. Reg. 48208 (August 8, 2011); Docket No. EPA-HQ-OAR-2009-0491

Dear Administrator Jackson:

We are submitting this Request for Reconsideration and Stay to the U.S. Environmental Protection Agency ("EPA" and/or "agency") on behalf of Southwestern Electric Power Company (SWEPCO), an electric public utility that has and continues to serve Northwest Louisiana, East Texas, and Western Arkansas. SWEPCO has carefully reviewed the final rule entitled *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, published at 76 Fed. Reg. 48208 (August 8, 2011), (hereinafter referred to as the "Transport Rule") including the material changes to the rule between its original proposal and the final version. SWEPCO has reviewed particularly the significant issues concerning the revision of state budgets based on new modeling which contains erroneous assumptions. The new proposed rule, based on this modeling, adopts an inflexible trading system that combines new and significantly different reductions in emissions with an implementation date that is less than 6 months from the public release of the rule. These mandated reductions in such a short time period without an adequate means to comply will result in immediate and irreparable harm to states, utilities, such as SWEPCO, and particularly, to all of SWEPCO's ratepayers. In light of the foregoing, SWEPCO respectfully requests reconsideration and stay of the Transport Rule.

I. SWEPCO Adopts and Joins in the Request for Reconsideration and Stay by American Electric Power and the Louisiana Public Service Commission

In submitting this Request for Reconsideration and Stay, SWEPCO also notes that it is an operating company of American Electric Power System (collectively referred to herein as

“AEP”). SWEPCO hereby adopts the comments of AEP, in its Request for Reconsideration and Stay, such that there is no need to repeat all of the significant issues raised in the Request submitted by AEP. However, while adopting and incorporating the comments and material issues raised in the AEP Request for Reconsideration and Stay, SWEPCO as an electric public utility, also submits these comments, noting the specific negative impacts upon SWEPCO and its ratepayers, resulting from the implementation of the Transport Rule on the terms and within the timeframe currently proposed. This Request will require a specific discussion of SWEPCO’s generating and transmission assets and the adverse effects as to reliability and costs resulting from the Transport Rule, as proposed.

SWEPCO also notes that the Louisiana Public Service Commission (LPSC), an entity established directly by Louisiana Constitution in Article VI, Sections 3 through 9, is also filing a separate Request for Reconsideration and Stay of the Transport Rule. The LPSC took this significant action, due to the material adverse impacts upon the State of Louisiana, the public utilities in Louisiana, and particularly, the ratepayers throughout Louisiana. SWEPCO also supports the Request for Reconsideration and Stay by the LPSC and the material issues and impacts discussed therein. However, SWEPCO files its Request for Reconsideration and Stay, in order to set forth the specific issues resulting from the implementation of the Transport Rule as proposed, including but not limited to the need for analysis of the individual electric generating units, as well as and the ability to evaluate local transmission constraints in order to fully evaluate all reliability, costs and other impacts upon SWEPCO and its ratepayers.

In addition to faulty modeling, the EPA’s Integrated Planning Model (IPM) does not incorporate or include this type of analysis, which is essential to determine the actual impacts upon ratepayers, who are entitled to and are reliant upon reliable and low cost service.

II. Southwestern Electric Power Company, an Electric Public Utility with an Obligation to Provide Reliable Service at Reasonable Costs, Requests EPA to Reconsider and Stay its Transport Rule:

SWEPCO and its predecessors have served ratepayers throughout Northwest Louisiana, East Texas and Northwest Arkansas for about a century. SWEPCO’s corporate headquarters are located in Shreveport, Louisiana, with SWEPCO serving rural and metropolitan customers throughout the tri-state region. Some of the metropolitan areas include Shreveport and Bossier City in Northwest Louisiana, including Barksdale Air Force Base; Longview, Marshall and Texarkana in East Texas, including US Steel; and Texarkana and Fayetteville in Arkansas, including the University of Arkansas. In addition, SWEPCO provides service to eight wholesale customers, including several rural electric cooperatives and the city of Bentonville, Arkansas, which houses Wal-Mart’s world headquarters.

SWEPCO is an electric public utility that has consistently provided reliable service to its ratepayers, while maintaining some of the lowest rates in the region. In order to

accomplish these objectives, SWEPCO uses a diversified fuel mix, so as to ensure continued reliability and low rates, including natural gas, Wyoming low-sulfur coal, and locally-mined lignite. The most recent addition to its generating fleet is the J. Lamar Stall Unit at Arsenal Hill in Shreveport, a 508 MW combined cycle, natural gas unit. SWEPCO's solid fuel units are primarily baseload units, with the Stall Unit at Arsenal Hill being an example of an intermediate unit, and with older, higher-cost gas units serving as peaking units. All of SWEPCO's capacity was put to use during the summer of 2011, with SWEPCO reaching an all-time new peak of 5,543 MW on August 3rd. Additional high demands were set on August 2nd with 5,457 MW, and on August 1st with 5,370 MW. All of these peak loads exceeded the previous record of 4,994 MW set last summer on August 11, 2010. During this past summer, the load exceeded projections by over 7%. Thus, demands on SWEPCO's systems have been steadily increasing due to high demand during hot summers.

SWEPCO, as an electric public utility, is regulated by the respective public service commissions in each of the three states in which it provides service, including the Louisiana Public Service Commission (LPSC), Arkansas Public Service Commission (APSC) and the Public Utility Commission of Texas (PUCT). All of the respective commissions are charged with the responsibility of regulating service, reliability, costs, and related issues for the benefit of ratepayers. Significantly, SWEPCO, as an electric public utility has the obligation to serve, in each of the respective states. This obligation requires careful long term planning and the consideration of reliability issues, reserve requirements, transmission capacity and certainly, costs. The reliable supply of electricity is critical to the public health and to the economy of each of SWEPCO's states.

In order to consider and fully evaluate and address these issues in terms of the Transport Rule, the individual performance of each and every affected electric generation unit and any specific transmission constraints must be carefully and accurately considered and evaluated. However, system analysis has not been done, as there has not been sufficient time granted to fully analyze and address these critical issues. This lack of any meaningful analysis has also resulted in there being significant errors in the EPA's IPM, which will result in substantial and material adverse impacts. Consequently, SWEPCO requests reconsideration and stay of the Transport Rule, while these significant errors and issues, which materially and adversely affect ratepayers throughout the three state region, be fully analyzed and assessed.

SWEPCO also specifically requests that the EPA stay its anticipated action in removing allowances from the existing Clean Air Interstate Rule (CAIR) allowance accounts, so that during any period for reconsideration or judicial review, the omission reductions that have been and are being made can continue, so as to contribute to the improved air quality across the region. SWEPCO respectfully requests and urges the EPA not to dismantle the successful existing compliance structure, without providing SWEPCO and others the opportunity to seek the needed relief from the Transport Rule, which includes unreasonable reduction demands, and an inflexible compliance schedule, the impacts of which have not been correctly and fully analyzed and determined by the agency.

III. the EPA's Modeling is Fundamentally Flawed and SWEPCO Had No Notice or Opportunity to Comment on Key Errors:

In developing the proposed Transport Rule's redesign of CAIR's cap and trade system, EPA followed a process based upon the complex IPM modeling of the US Electric Power Sector. (The modeling process is discussed in more detail in the AEP Request for Reconsideration and Stay (see pp. 3-5)). The EPA then identified the proportion of each state's contributing emissions, which it projected to "contribute to" or "interfere with" the maintenance compliance by another state. Under the Transport Rule, states were included in one or more of three separate programs to reduce their annual SO₂, NO_x, and/or seasonal NO_x emissions in order to help down-wind states achieve compliance. The proposed rule also assigned annual emission budgets to each state for each pollutant and allocated emission allowances to sources within each state for the years 2012 and 2014. The 2012 emission reductions were intended to reflect continuous operation of installed controls, limited upgrades of combustion controls (for NO_x) and limited fuel switching (for SO₂). After the publication of the proposed rule in the Federal Register, the EPA provided only sixty days to review over 250 pages of regulatory language and volumes of supporting documentation and detailed modeling information. There were significant errors noted in the modeling inputs and in the various assumptions, some of which directly affect SWEPCO.

Thereafter, the EPA issued three separate notices with the last being in January 2011, which included IPM model runs still based upon incorrect inputs, examining different allocation methodologies, and compliance scenarios. Subsequently, upon receiving comments, EPA updated its models and generated scenarios that had never before been provided for public review, so as to achieve even more significant reductions in SO₂ and NO_x emissions and then proposed to expand the program into six other states for ozone-season NO_x. EPA also altered the programs that would be effective in certain states, limiting the requirements to ozone-season only reductions in Louisiana, but imposing annual SO₂ and NO_x reduction requirements that were never previously announced in Texas. All of EPA's actions affecting the regional states are significant for SWEPCO, as all generation units owned by SWEPCO, whether located in Louisiana, Arkansas or Texas, are needed to serve SWEPCO ratepayers across all three state jurisdictions.

The level of reduction required to be achieved in various states, including Arkansas, Louisiana and Texas changed materially from the proposed rule to the final rule. (See chart entitled *Comparison of Proposed to Final 2012 Budgets in AEP States* on p. 6 of AEP Request for Reconsideration and Stay)

The Transport Rule's proposed state reductions, based upon EPA's incorrect modeling, evaluated Louisiana's 2010 NO_x emissions based upon a three-year average at 23,172 (tons of NO_x), with an emission budget in 2012 and 2013 at 13,432, with emissions under budget of 9,740 for a required percentage change of -42%. The estimated impact

of the NOx seasonal-ozone reductions for Louisiana utilities are preliminarily estimated¹ as follows:

	3-Year Average NOx	CSAPR			
		Allocation	Percent Difference	Deficit with CSAPR	
				2012	2014
CLECO	2,760.9	1,534.2	-44.4%	(1,226.7)	(1,226.7)
ELL	6,516.0	2,609.0	-60.0%	(3,907.0)	(3,907.0)
EGSL	2,925.3	1,583.0	-45.9%	(1,342.3)	(1,342.3)
ENO	896.5	592.0	-34.0%	(304.5)	(304.5)
SWEPCO	1,150.0	630.0	-45.2%	(520.0)	(520.0)
Muni	1,637.5	806.8	-50.7%	(830.7)	(830.7)
Big Cajun 2	5,001.7	2,842.0	-43.2%	(2,159.7)	(2,159.7)
IPP	281.6	415.0	47.4%	133.4	133.4
Cogen	1,864.5	2,018.0	8.2%	153.5	153.5
Total	23,034.0	13,030.0	-43.4%	(10,004.0)	(10,004.0)

The methodology used to develop the state-by-state emission budgets is fundamentally flawed, which in turn resulted in flawed unit-by-unit allocations. SWEPCO had no notice or opportunity to comment on these key errors. For example:

1. The underlying modeling performed by EPA constrained the operation of classes of generation that are traditionally used to support periods of peak demand (that routinely occur during the ozone season, with the SWEPCO units being discussed below);
2. The model projects significant changes in coal supplies in 2012, even though most of the generating units in the Transport Rule region, including SWEPCO, have made contractual commitments to existing fuel suppliers for 2012 and beyond, so as to ensure low cost fuel and transportation;
3. The cost assumptions used in the underlying model were understated; and
4. The level of projected generation in individual states, including Louisiana, is well below levels generated in 2010. If generation were to be constrained under this false assumption, the constrained supply would affect the public health during

¹ The data set forth in the chart was presented by LPSC Staff at the September 7, 2011 Business and Executive Meeting of the LPSC. Staff also noted that Louisiana would likely run out of emission credits around July 4th, 2012 (with the ozone season running through the end of September) if the Transport Rule, as proposed, takes effect. This would result in 80 days without credits, resulting in an obvious inability to comply.

warm summer months and would further impede economic recovery and job growth.

5. As a result of the flawed model, the NO_x seasonal-ozone budget for Louisiana is significantly smaller than required for reliable electrical system operation.

EPA's modeling for unit operations is not consistent with either historical operation or expected operation under the Transport Rule requirements. As an example, within Louisiana there is over 9200 MW of generation that is assumed not to run within the Transport Rule policy case in 2012. However, most of this generation was operating during 2010 and was responsible for 26% of ozone season heat input and 43% of ozone season emissions. Many of these units are critical for grid reliability and are must-run units. Consequently, EPA has dramatically underestimated the generation requirements from within the state of Louisiana, as well as NO_x emissions.

The model includes other erroneous operating assumptions under the EPA's dispatch modeling that are specific to SWEPCO units. The EPA model assumes that the following SWEPCO Louisiana units will not run: Lieberman Units 1 through 4 and Arsenal Hill 5. These are necessary and essential peaking units, which in fact operated in 2010 and in 2011. Further, the EPA model assumes the following Texas units will not run: Knox Lee Units 2, 3, 4, and 5; Wilkes Unit 1; and Lone Star Unit 1. In fact, all of these units operated in the modeling period of 2010, as well as in the load-critical summer of 2011. Moreover, these units are projected to run again in 2012 to meet load and reliability requirements.

EPA's model also made significant erroneous assumptions concerning fuel. The model outputs incorrectly assume that Lieberman Units 3 and 4, Arsenal Hill 5, Knox Lee 4, and Wilkes 1 are fueled by oil. In fact, Arsenal Hill 5 and Knox Lee 4 are *incapable* of burning fuel oil. While some of the other units have the ability to burn oil, these units are fueled by natural gas and have been fueled by natural gas for years.

The EPA model assumed that SWEPCO will not operate the eleven (11) units identified above, representing approximately 1000 MW of capacity, which were excluded from the study. Thus, EPA must also have assumed that SWEPCO could somehow displace 1000 MW generating capacity for the 10 units by purchasing from other sources. While SWEPCO should be able to confirm a portion of the requested service by modifying redispatch requirements, some redispatch requirements would require the assistance of and contacts with unaffiliated third parties, who are under no obligation whatsoever to lend assistance to SWEPCO, a public utility with an obligation to serve. In addition, there is no study demonstrating transmission capacity will be available for delivery of this supply to SWEPCO's load or the effect transmission constraints may have on ratepayer costs.

The EPA's methodology also only allocates additional allowances to "planned" units that commence operations between January 2010 and January 2012, thus, ignoring units that will commence operations in 2012 or 2013. For example, AEP is constructing a large

ultra-supercritical coal-fired power plant, the Turk Plant in Arkansas, which is anticipated to commence operation in October 2012. Turk should have been included in the “planned” new unit allocation. Turk’s permitted NOx emissions alone are over three times the size of the total new unit set-aside, and it is expected to run as a baseload unit during ozone season, making the current set-aside grossly inadequate. Also, a new unit at the Plum Point Power Station is being constructed in Arkansas, which commenced operation during 2011, and should have been but was not included in the calculation of additional new source set-aside. In light of these under-allocations, the two newest and most efficient generators within the state of Arkansas are at risk of exceeding assurance levels due to an insufficient allocation of allowances. Thus, SWEPCO requests, as a part of the requested relief, that the allocations be increased in the affected states in which SWEPCO operates, in addition to the other relief sought herein.

There has not been sufficient time granted to conduct the precise studies necessary to determine the magnitude of the impact of the Transport Rule upon SWEPCO and its ratepayers. Thus, the modeling is substantially flawed, with the SWEPCO specific omissions and errors noted above being material. Respectfully, this alone should result in the reconsideration and stay of the effect of the Transport Rule, pending correction of the errors, followed by further study and analysis, with a request to stay the rule as it applies to Louisiana, Arkansas and Texas.

IV. SWEPCO Must Consider Compliance Issues in the Context of a Reasonable Time Frame, Meeting Reliability Requirements and the Significant Impacts Upon Its Ratepayers:

SWEPCO is a member of the Southwest Power Pool (SPP), a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO). On September 20, 2011, the SPP corresponded with you as the Administrator of the EPA and advised that the SPP is “concerned that the Environmental Protection Agency finalized the Cross State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region.”² (See Exhibit “A”)

In expressing its reliability concerns, Mr. Nicholas Brown, President and CEO of SPP, along with others, noted the following:

“FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well-vetted industry process identifying key requirements to ensure that bulk electric systems meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably, as well as subject SPP and its members to financial penalties. These standards require that SPP’s Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits

² The term Transport Rule is used throughout except when including specific quotations which use the acronym CSAPR.

in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.” (Emphasis added)

Thus, there are very serious reliability issues which those with particular expertise in the area, including the SPP, have identified. The SPP goes on to explain that the result of its “reliability assessment of the CSAPR IPM generation dispatch indicates serious negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling black-outs or cascading outages that would likely have significant impacts on human health, public safety, and commercial activity within SPP.” The SPP further notes, and SWEPCO concurs, that the time period between “finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.” Reliability is not an issue with which the utilities, the FERC or hopefully, the EPA are willing to take risk, as reliability affects every individual, industry, business and ratepayer throughout the region.

NERC also establishes reliability standards, including reserve requirements, which must be considered. In its analysis, the SPP also noted, “Our reliability modeling indicates that the CSAPR Integrated Planning Model 4.1 (IMP) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012.” (Emphasis added) Thus, SWEPCO, and other utilities, may be in a situation where they cannot comply with NERC standards, and also comply with the Transport Rule as proposed by the agency.

SWEPCO carefully forecasts and plans many years in advance to determine generation and transmission needs. However, this planning process has been upset by the fact that SWEPCO did not receive sufficient allowances under the Transport Rule to meet its jurisdictional retail load. Given the very short time allotted for compliance, SWEPCO is considering a multi-faceted compliance approach, all of which affects reliability and increases costs to our ratepayers, and none of which was accurately predicted or taken into account by EPA in the final rule.

Our compliance plan likely will include a mix of the following:

1. Re-dispatching: We also particularly note that the coal units, such as Welsh, are designed to run as baseload units, and are not designed to run at lower levels and then ramp up where necessary. The engineers at SWEPCO, some of which have over 30 years of experience with these particular generating units, are concerned about the mechanical ability of these units to perform under these circumstances. Specifically, the long term impact in terms of additional maintenance, higher O&M costs, outages and other mechanical issues is unclear.

2. Purchased Power: The other issues to consider for compliance in such a short time-frame include the availability of power for purchase within the SPP market. However, SWEPCO cannot fully assess the market availability in view of the Transport Rule, with other companies simultaneously attempting to develop their own compliance and purchase plans, some of which may include retirement of existing capacity. Certainly, power availability is expected to be less than normal; thus, again resulting in higher costs to ratepayers. As mentioned above, technical transmission constraints may compound the decreased availability of market power, increasing prices even further.

3. Air Emissions Controls: SWEPCO is evaluating technical emission controls, which include installing low NOx burners and over-fire air systems, for example, at Flint Creek for operation in the 2013 ozone season (May to September). Further, SWEPCO and Central Louisiana Electric Company (CLECO) jointly own the Dolet Hills Power Plant in Mansfield, Louisiana, and it will be necessary to install a Selective Non-Catalytic Reduction (SNCR) system. There are timing and cost risks associated with these actions, because other companies are taking similar actions during the very short time allotted. There will be significant competition for material and labor; thus, again affecting ratepayers.

4. Allowance Purchases: SWEPCO will also be considering purchasing emission allowances as available, in order to compensate for shortfalls. There are risks associated with this strategy, in that if states exceed their assurance limits, there could be penalties associated with the purchases of allowances. Additionally, the availability of allowances is uncertain.

All of the above are compliance actions being considered solely to comply with the Transport Rule. However, compliance with the Transport Rule and the other proposed EPA rulemakings, are estimated to cost approximately \$1.3 billion dollars for SWEPCO alone, which costs will materially affect rates and our ratepayers.

V. Conclusion:

SWEPCO appreciates the opportunity to submit this Request for Reconsideration and Stay, particularly in light of the significant adverse impacts upon SWEPCO and ratepayers throughout SWEPCO's service territory in the states of Louisiana, Arkansas and Texas. SWEPCO also notes and appreciates the dialogue between the Agency and AEP, which has continued since the publication of the final Transport Rule. However, there were fundamental errors in the modeling that adversely affect the ability of SWEPCO to provide reliable and low-cost power to its ratepayers throughout the three states, and which can adversely affect every industry, business and all residents residing in SWEPCO's service territory.

SWEPCO respectfully requests that in light of the particular issues raised hereinabove, and in light of the requests, that the Administrator grant reconsideration of the issues identified herein, and that the Administrator stay the effectiveness of the final rule, while

maintaining the CAIR allowances currently in the compliance accounts for CAIR units, in order to maintain and continue the improvements in air quality achieved to date, with all appropriate remedies including those discussed hereinabove.

Respectfully submitted:

A handwritten signature in black ink, reading "Venita McCellon-Allen". The signature is written in a cursive, flowing style.

Venita McCellon-Allen
President and COO
Southwestern Electric Power Company

cc: Bobby S. Gilliam and Jonathan P. McCartney, Wilkinson, Carmody & Gilliam
Janet J. Henry, Deputy General Counsel, American Electric Power
Commissioners of the Louisiana Public Service Commission
Commissioners of the Arkansas Public Service Commission
Commissioners of the Public Utility Commission of Texas

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

September 20, 2011

Administrator Lisa P. Jackson
USEPA Headquarters
Ariel Rios Building
1200 Pennsylvania Avenue, N. W.
Mail Code: 1101A
Washington, DC 20460

Re: SPP's Review of the EPA's IPM Analysis of the Cross-State Air Pollution Rule, Docket ID No. EPA-HQ-OAR-2009-0491

Dear Ms. Jackson:

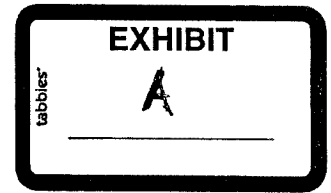
Southwest Power Pool, Inc. (SPP), in its capacity as a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) and a Regional Entity, is concerned that the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region. SPP originally expressed concern with the reliability impacts of proposed regulations¹ in its July 19, 2011 comment letter to the EPA.

As required by the Energy Policy Act of 2005, FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well vetted industry process identifying key requirements to ensure the bulk electric system meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably as well subject SPP and its members to financial penalties. These standards require that SPP's Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.

Our reliability modeling² indicates that the CSAPR Integrated Planning Model 4.1 (IPM) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012. SPP's planning models identified 5.4 GW from the 48 generation units identified by the EPA with zero fuel burn in 2012 that would have been dispatched during the 2012

¹ On July 19, 2011, Nicholas A. Brown, SPP President and CEO, submitted comments to the EPA in Docket ID Nos. EPA-HQ-OW-2008-0667, EPA-HQ-OAR-2009-0234, and EPA-HQ-OAR-2011-0044, additionally providing SPP's preliminary assessment of the potential reliability impacts of proposed EPA regulations impacting generation in the SPP footprint.

² SPP removed all generation units in its models that consumed zero fuel in the EPA models. No other SPP model adjustments were made.



Summer Peak conditions. Our analysis revealed 220 overloads in excess of the required, 100% of emergency ratings under contingencies, and 1047 circumstances at various locations on the transmission system where voltage was below the prescribed lower limit of 90% of nominal rating. The statistics in this analysis must be viewed as being indicative, not definitive, results and are probably very conservative compared to what would be experienced in the real world should the modeled system conditions exist. An even clearer representation of reliability violations can be found by applying higher operability limits of 120% to the overloads. There were 16 such overloads on the system. Using a similar out of normal range there were 93 circumstances where voltage dropped below 85% of nominal. These “clear-cut” examples of standards violations represent the well founded concerns regarding the timeline with which the CSAPR would be instituted.

Additionally, 30 contingency scenarios did not solve, which is indicative of extreme system constraints, including the potential of cascading blackouts similar to what occurred in 2003 or which could require the shedding of firm load (that is, localized rolling black-outs initiated by utilities within the SPP region) to avoid more widespread and uncontrolled blackouts and to remain in compliance with reliability standards. Some of the contingencies could be resolved with other short-term transmission and/or resource solutions, but several could not. In those cases, SPP would be in clear violation of mandatory reliability standards and subject to penalty from FERC. However, SPP cannot be compliant with NERC’s planning standards without placing its generation owners in violation of EPA standards when the unutilized units in the IPM are unavailable to SPP. Further exacerbating this situation, SPP’s analysis also revealed that generation production from “small units”³ increased from 13 to 57 units deployed. Some of these units are likely subject to the reciprocating internal combustion engines (RICE) regulations, which were not evaluated as part of this reliability study. If we look beyond the summer peak hour studied, the unavailability of approximately 11 GWs⁴ of total capacity from the EPA model in SPP’s footprint would likely result in additional localized reliability issues.

The result of SPP’s reliability assessment of the EPA’s CSAPR IPM generation dispatch indicates serious, negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling blackouts or cascading outages that would likely have significant impacts on human health, public safety and commercial activity within SPP. These regulations further compound the reliability impacts addressed by SPP in its July 19, 2011 comment letter, which focused on the MACT regulations to be enacted in 2014/15. The time period between finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.

SPP supports a more flexible approach to meeting the emission requirements under the CSAPR, as stated in a joint letter from the New York Independent System Operator, Midwest Independent System Operator, PJM Regional Transmission Organization, the Electric Reliability Council of Texas, and SPP to the EPA in August. The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, SPP and its members may be placed in the untenable position of deciding which agency’s rules to violate, FERC or EPA. Putting an

³ “Small units” denotes those units generating 25 megawatts or less per unit.

⁴ Although the EPA model had additional units and capacity with zero fuel burn in 2012 (10.7 - 10.9 GW in total depending on the source of the Pmax), many of these units which were not dispatched in our 2012summer model will be needed during off-peak load periods to accommodate outages and to maintain system reliability.

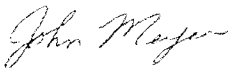
industry with critical infrastructure in the position of choosing which agency's rules to violate is bad public policy. SPP suggests that the EPA delay CSAPR's effective date at least a year to allow for investigating, planning, and developing solutions to assist our members in maintaining grid reliability and compliance with both its current regulatory bodies and all of the EPA regulations that impact the electric industry.

Your prompt attention to this matter is greatly appreciated. Please do not hesitate to contact me if you have any questions or would like to discuss this matter further.

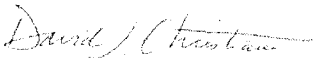
Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Nick Brown".

Nicholas A. Brown
President & CEO
Southwest Power Pool, Inc.
(501) 614-3213 • Fax: (501) 664-9553 • nbrown@spp.org

A handwritten signature in cursive script, appearing to read "John Meyer".

John Meyer
Chairman and Trustee
Southwest Power Pool Regional Entity

A handwritten signature in cursive script, appearing to read "David Christiano".

David Christiano
Trustee
Southwest Power Pool Regional Entity

A handwritten signature in cursive script, appearing to read "Gerry Burrows".

Gerry Burrows
Trustee
Southwest Power Pool Regional Entity

cc: SPP Board of Directors
SPP Regional State Committee
SPP Strategic Planning Committee
State Regulators in Arkansas, Kansas, Louisiana, Mississippi, Nebraska, New Mexico,
Oklahoma, and Texas



HELPING OUR MEMBERS WORK TOGETHER
TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

Congressional Delegations of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
Governors of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
North American Electric Reliability Corporation
President Barack Obama
Secretary of Energy Dr. Steven Chu
Federal Energy Regulatory Commission

October 5, 2011

Via Overnight and Electronic Mail

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Room 3000, Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460
(jackson.lisa@epa.gov)

Re: Request of Southwestern Electric Power Company (SWEPCO) for Reconsideration and for Stay of *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, 76 Fed. Reg. 48208 (August 8, 2011); Docket No. EPA-HQ-OAR-2009-0491

Dear Administrator Jackson:

We are submitting this Request for Reconsideration and Stay to the U.S. Environmental Protection Agency (“EPA” and/or “agency”) on behalf of Southwestern Electric Power Company (SWEPCO), an electric public utility that has and continues to serve Northwest Louisiana, East Texas, and Western Arkansas. SWEPCO has carefully reviewed the final rule entitled *Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals*, published at 76 Fed. Reg. 48208 (August 8, 2011), (hereinafter referred to as the “Transport Rule”) including the material changes to the rule between its original proposal and the final version. SWEPCO has reviewed particularly the significant issues concerning the revision of state budgets based on new modeling which contains erroneous assumptions. The new proposed rule, based on this modeling, adopts an inflexible trading system that combines new and significantly different reductions in emissions with an implementation date that is less than 6 months from the public release of the rule. These mandated reductions in such a short time period without an adequate means to comply will result in immediate and irreparable harm to states, utilities, such as SWEPCO, and particularly, to all of SWEPCO’s ratepayers. In light of the foregoing, SWEPCO respectfully requests reconsideration and stay of the Transport Rule.

I. SWEPCO Adopts and Joins in the Request for Reconsideration and Stay by American Electric Power and the Louisiana Public Service Commission

In submitting this Request for Reconsideration and Stay, SWEPCO also notes that it is an operating company of American Electric Power System (collectively referred to herein as

“AEP”). SWEPCO hereby adopts the comments of AEP, in its Request for Reconsideration and Stay, such that there is no need to repeat all of the significant issues raised in the Request submitted by AEP. However, while adopting and incorporating the comments and material issues raised in the AEP Request for Reconsideration and Stay, SWEPCO as an electric public utility, also submits these comments, noting the specific negative impacts upon SWEPCO and its ratepayers, resulting from the implementation of the Transport Rule on the terms and within the timeframe currently proposed. This Request will require a specific discussion of SWEPCO’s generating and transmission assets and the adverse effects as to reliability and costs resulting from the Transport Rule, as proposed.

SWEPCO also notes that the Louisiana Public Service Commission (LPSC), an entity established directly by Louisiana Constitution in Article VI, Sections 3 through 9, is also filing a separate Request for Reconsideration and Stay of the Transport Rule. The LPSC took this significant action, due to the material adverse impacts upon the State of Louisiana, the public utilities in Louisiana, and particularly, the ratepayers throughout Louisiana. SWEPCO also supports the Request for Reconsideration and Stay by the LPSC and the material issues and impacts discussed therein. However, SWEPCO files its Request for Reconsideration and Stay, in order to set forth the specific issues resulting from the implementation of the Transport Rule as proposed, including but not limited to the need for analysis of the individual electric generating units, as well as and the ability to evaluate local transmission constraints in order to fully evaluate all reliability, costs and other impacts upon SWEPCO and its ratepayers.

In addition to faulty modeling, the EPA’s Integrated Planning Model (IPM) does not incorporate or include this type of analysis, which is essential to determine the actual impacts upon ratepayers, who are entitled to and are reliant upon reliable and low cost service.

II. Southwestern Electric Power Company, an Electric Public Utility with an Obligation to Provide Reliable Service at Reasonable Costs, Requests EPA to Reconsider and Stay its Transport Rule:

SWEPCO and its predecessors have served ratepayers throughout Northwest Louisiana, East Texas and Northwest Arkansas for about a century. SWEPCO’s corporate headquarters are located in Shreveport, Louisiana, with SWEPCO serving rural and metropolitan customers throughout the tri-state region. Some of the metropolitan areas include Shreveport and Bossier City in Northwest Louisiana, including Barksdale Air Force Base; Longview, Marshall and Texarkana in East Texas, including US Steel; and Texarkana and Fayetteville in Arkansas, including the University of Arkansas. In addition, SWEPCO provides service to eight wholesale customers, including several rural electric cooperatives and the city of Bentonville, Arkansas, which houses Wal-Mart’s world headquarters.

SWEPCO is an electric public utility that has consistently provided reliable service to its ratepayers, while maintaining some of the lowest rates in the region. In order to

accomplish these objectives, SWEPCO uses a diversified fuel mix, so as to ensure continued reliability and low rates, including natural gas, Wyoming low-sulfur coal, and locally-mined lignite. The most recent addition to its generating fleet is the J. Lamar Stall Unit at Arsenal Hill in Shreveport, a 508 MW combined cycle, natural gas unit. SWEPCO's solid fuel units are primarily baseload units, with the Stall Unit at Arsenal Hill being an example of an intermediate unit, and with older, higher-cost gas units serving as peaking units. All of SWEPCO's capacity was put to use during the summer of 2011, with SWEPCO reaching an all-time new peak of 5,543 MW on August 3rd. Additional high demands were set on August 2nd with 5,457 MW, and on August 1st with 5,370 MW. All of these peak loads exceeded the previous record of 4,994 MW set last summer on August 11, 2010. During this past summer, the load exceeded projections by over 7%. Thus, demands on SWEPCO's systems have been steadily increasing due to high demand during hot summers.

SWEPCO, as an electric public utility, is regulated by the respective public service commissions in each of the three states in which it provides service, including the Louisiana Public Service Commission (LPSC), Arkansas Public Service Commission (APSC) and the Public Utility Commission of Texas (PUCT). All of the respective commissions are charged with the responsibility of regulating service, reliability, costs, and related issues for the benefit of ratepayers. Significantly, SWEPCO, as an electric public utility has the obligation to serve, in each of the respective states. This obligation requires careful long term planning and the consideration of reliability issues, reserve requirements, transmission capacity and certainly, costs. The reliable supply of electricity is critical to the public health and to the economy of each of SWEPCO's states.

In order to consider and fully evaluate and address these issues in terms of the Transport Rule, the individual performance of each and every affected electric generation unit and any specific transmission constraints must be carefully and accurately considered and evaluated. However, system analysis has not been done, as there has not been sufficient time granted to fully analyze and address these critical issues. This lack of any meaningful analysis has also resulted in there being significant errors in the EPA's IPM, which will result in substantial and material adverse impacts. Consequently, SWEPCO requests reconsideration and stay of the Transport Rule, while these significant errors and issues, which materially and adversely affect ratepayers throughout the three state region, be fully analyzed and assessed.

SWEPCO also specifically requests that the EPA stay its anticipated action in removing allowances from the existing Clean Air Interstate Rule (CAIR) allowance accounts, so that during any period for reconsideration or judicial review, the omission reductions that have been and are being made can continue, so as to contribute to the improved air quality across the region. SWEPCO respectfully requests and urges the EPA not to dismantle the successful existing compliance structure, without providing SWEPCO and others the opportunity to seek the needed relief from the Transport Rule, which includes unreasonable reduction demands, and an inflexible compliance schedule, the impacts of which have not been correctly and fully analyzed and determined by the agency.

III. the EPA's Modeling is Fundamentally Flawed and SWEPCO Had No Notice or Opportunity to Comment on Key Errors:

In developing the proposed Transport Rule's redesign of CAIR's cap and trade system, EPA followed a process based upon the complex IPM modeling of the US Electric Power Sector. (The modeling process is discussed in more detail in the AEP Request for Reconsideration and Stay (see pp. 3-5)). The EPA then identified the proportion of each state's contributing emissions, which it projected to "contribute to" or "interfere with" the maintenance compliance by another state. Under the Transport Rule, states were included in one or more of three separate programs to reduce their annual SO₂, NO_x, and/or seasonal NO_x emissions in order to help down-wind states achieve compliance. The proposed rule also assigned annual emission budgets to each state for each pollutant and allocated emission allowances to sources within each state for the years 2012 and 2014. The 2012 emission reductions were intended to reflect continuous operation of installed controls, limited upgrades of combustion controls (for NO_x) and limited fuel switching (for SO₂). After the publication of the proposed rule in the Federal Register, the EPA provided only sixty days to review over 250 pages of regulatory language and volumes of supporting documentation and detailed modeling information. There were significant errors noted in the modeling inputs and in the various assumptions, some of which directly affect SWEPCO.

Thereafter, the EPA issued three separate notices with the last being in January 2011, which included IPM model runs still based upon incorrect inputs, examining different allocation methodologies, and compliance scenarios. Subsequently, upon receiving comments, EPA updated its models and generated scenarios that had never before been provided for public review, so as to achieve even more significant reductions in SO₂ and NO_x emissions and then proposed to expand the program into six other states for ozone-season NO_x. EPA also altered the programs that would be effective in certain states, limiting the requirements to ozone-season only reductions in Louisiana, but imposing annual SO₂ and NO_x reduction requirements that were never previously announced in Texas. All of EPA's actions affecting the regional states are significant for SWEPCO, as all generation units owned by SWEPCO, whether located in Louisiana, Arkansas or Texas, are needed to serve SWEPCO ratepayers across all three state jurisdictions.

The level of reduction required to be achieved in various states, including Arkansas, Louisiana and Texas changed materially from the proposed rule to the final rule. (See chart entitled *Comparison of Proposed to Final 2012 Budgets in AEP States* on p. 6 of AEP Request for Reconsideration and Stay)

The Transport Rule's proposed state reductions, based upon EPA's incorrect modeling, evaluated Louisiana's 2010 NO_x emissions based upon a three-year average at 23,172 (tons of NO_x), with an emission budget in 2012 and 2013 at 13,432, with emissions under budget of 9,740 for a required percentage change of -42%. The estimated impact

of the NOx seasonal-ozone reductions for Louisiana utilities are preliminarily estimated¹ as follows:

	3-Year Average NOx	CSAPR			
		Allocation	Percent Difference	Deficit with CSAPR	
				2012	2014
CLECO	2,760.9	1,534.2	-44.4%	(1,226.7)	(1,226.7)
ELL	6,516.0	2,609.0	-60.0%	(3,907.0)	(3,907.0)
EGSL	2,925.3	1,583.0	-45.9%	(1,342.3)	(1,342.3)
ENO	896.5	592.0	-34.0%	(304.5)	(304.5)
SWEPCO	1,150.0	630.0	-45.2%	(520.0)	(520.0)
Muni	1,637.5	806.8	-50.7%	(830.7)	(830.7)
Big Cajun 2	5,001.7	2,842.0	-43.2%	(2,159.7)	(2,159.7)
IPP	281.6	415.0	47.4%	133.4	133.4
Cogen	1,864.5	2,018.0	8.2%	153.5	153.5
Total	23,034.0	13,030.0	-43.4%	(10,004.0)	(10,004.0)

The methodology used to develop the state-by-state emission budgets is fundamentally flawed, which in turn resulted in flawed unit-by-unit allocations. SWEPCO had no notice or opportunity to comment on these key errors. For example:

1. The underlying modeling performed by EPA constrained the operation of classes of generation that are traditionally used to support periods of peak demand (that routinely occur during the ozone season, with the SWEPCO units being discussed below);
2. The model projects significant changes in coal supplies in 2012, even though most of the generating units in the Transport Rule region, including SWEPCO, have made contractual commitments to existing fuel suppliers for 2012 and beyond, so as to ensure low cost fuel and transportation;
3. The cost assumptions used in the underlying model were understated; and
4. The level of projected generation in individual states, including Louisiana, is well below levels generated in 2010. If generation were to be constrained under this false assumption, the constrained supply would affect the public health during

¹ The data set forth in the chart was presented by LPSC Staff at the September 7, 2011 Business and Executive Meeting of the LPSC. Staff also noted that Louisiana would likely run out of emission credits around July 4th, 2012 (with the ozone season running through the end of September) if the Transport Rule, as proposed, takes effect. This would result in 80 days without credits, resulting in an obvious inability to comply.

warm summer months and would further impede economic recovery and job growth.

5. As a result of the flawed model, the NO_x seasonal-ozone budget for Louisiana is significantly smaller than required for reliable electrical system operation.

EPA's modeling for unit operations is not consistent with either historical operation or expected operation under the Transport Rule requirements. As an example, within Louisiana there is over 9200 MW of generation that is assumed not to run within the Transport Rule policy case in 2012. However, most of this generation was operating during 2010 and was responsible for 26% of ozone season heat input and 43% of ozone season emissions. Many of these units are critical for grid reliability and are must-run units. Consequently, EPA has dramatically underestimated the generation requirements from within the state of Louisiana, as well as NO_x emissions.

The model includes other erroneous operating assumptions under the EPA's dispatch modeling that are specific to SWEPCO units. The EPA model assumes that the following SWEPCO Louisiana units will not run: Lieberman Units 1 through 4 and Arsenal Hill 5. These are necessary and essential peaking units, which in fact operated in 2010 and in 2011. Further, the EPA model assumes the following Texas units will not run: Knox Lee Units 2, 3, 4, and 5; Wilkes Unit 1; and Lone Star Unit 1. In fact, all of these units operated in the modeling period of 2010, as well as in the load-critical summer of 2011. Moreover, these units are projected to run again in 2012 to meet load and reliability requirements.

EPA's model also made significant erroneous assumptions concerning fuel. The model outputs incorrectly assume that Lieberman Units 3 and 4, Arsenal Hill 5, Knox Lee 4, and Wilkes 1 are fueled by oil. In fact, Arsenal Hill 5 and Knox Lee 4 are *incapable* of burning fuel oil. While some of the other units have the ability to burn oil, these units are fueled by natural gas and have been fueled by natural gas for years.

The EPA model assumed that SWEPCO will not operate the eleven (11) units identified above, representing approximately 1000 MW of capacity, which were excluded from the study. Thus, EPA must also have assumed that SWEPCO could somehow displace 1000 MW generating capacity for the 10 units by purchasing from other sources. While SWEPCO should be able to confirm a portion of the requested service by modifying redispatch requirements, some redispatch requirements would require the assistance of and contacts with unaffiliated third parties, who are under no obligation whatsoever to lend assistance to SWEPCO, a public utility with an obligation to serve. In addition, there is no study demonstrating transmission capacity will be available for delivery of this supply to SWEPCO's load or the effect transmission constraints may have on ratepayer costs.

The EPA's methodology also only allocates additional allowances to "planned" units that commence operations between January 2010 and January 2012, thus, ignoring units that will commence operations in 2012 or 2013. For example, AEP is constructing a large

ultra-supercritical coal-fired power plant, the Turk Plant in Arkansas, which is anticipated to commence operation in October 2012. Turk should have been included in the “planned” new unit allocation. Turk’s permitted NOx emissions alone are over three times the size of the total new unit set-aside, and it is expected to run as a baseload unit during ozone season, making the current set-aside grossly inadequate. Also, a new unit at the Plum Point Power Station is being constructed in Arkansas, which commenced operation during 2011, and should have been but was not included in the calculation of additional new source set-aside. In light of these under-allocations, the two newest and most efficient generators within the state of Arkansas are at risk of exceeding assurance levels due to an insufficient allocation of allowances. Thus, SWEPCO requests, as a part of the requested relief, that the allocations be increased in the affected states in which SWEPCO operates, in addition to the other relief sought herein.

There has not been sufficient time granted to conduct the precise studies necessary to determine the magnitude of the impact of the Transport Rule upon SWEPCO and its ratepayers. Thus, the modeling is substantially flawed, with the SWEPCO specific omissions and errors noted above being material. Respectfully, this alone should result in the reconsideration and stay of the effect of the Transport Rule, pending correction of the errors, followed by further study and analysis, with a request to stay the rule as it applies to Louisiana, Arkansas and Texas.

IV. SWEPCO Must Consider Compliance Issues in the Context of a Reasonable Time Frame, Meeting Reliability Requirements and the Significant Impacts Upon Its Ratepayers:

SWEPCO is a member of the Southwest Power Pool (SPP), a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO). On September 20, 2011, the SPP corresponded with you as the Administrator of the EPA and advised that the SPP is “concerned that the Environmental Protection Agency finalized the Cross State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region.”² (See Exhibit “A”)

In expressing its reliability concerns, Mr. Nicholas Brown, President and CEO of SPP, along with others, noted the following:

“FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well-vetted industry process identifying key requirements to ensure that bulk electric systems meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably, as well as subject SPP and its members to financial penalties. These standards require that SPP’s Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits

² The term Transport Rule is used throughout except when including specific quotations which use the acronym CSAPR.

in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.” (Emphasis added)

Thus, there are very serious reliability issues which those with particular expertise in the area, including the SPP, have identified. The SPP goes on to explain that the result of its “reliability assessment of the CSAPR IPM generation dispatch indicates serious negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling black-outs or cascading outages that would likely have significant impacts on human health, public safety, and commercial activity within SPP.” The SPP further notes, and SWEPCO concurs, that the time period between “finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.” Reliability is not an issue with which the utilities, the FERC or hopefully, the EPA are willing to take risk, as reliability affects every individual, industry, business and ratepayer throughout the region.

NERC also establishes reliability standards, including reserve requirements, which must be considered. In its analysis, the SPP also noted, “Our reliability modeling indicates that the CSAPR Integrated Planning Model 4.1 (IMP) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012.” (Emphasis added) Thus, SWEPCO, and other utilities, may be in a situation where they cannot comply with NERC standards, and also comply with the Transport Rule as proposed by the agency.

SWEPCO carefully forecasts and plans many years in advance to determine generation and transmission needs. However, this planning process has been upset by the fact that SWEPCO did not receive sufficient allowances under the Transport Rule to meet its jurisdictional retail load. Given the very short time allotted for compliance, SWEPCO is considering a multi-faceted compliance approach, all of which affects reliability and increases costs to our ratepayers, and none of which was accurately predicted or taken into account by EPA in the final rule.

Our compliance plan likely will include a mix of the following:

1. Re-dispatching: We also particularly note that the coal units, such as Welsh, are designed to run as baseload units, and are not designed to run at lower levels and then ramp up where necessary. The engineers at SWEPCO, some of which have over 30 years of experience with these particular generating units, are concerned about the mechanical ability of these units to perform under these circumstances. Specifically, the long term impact in terms of additional maintenance, higher O&M costs, outages and other mechanical issues is unclear.

2. Purchased Power: The other issues to consider for compliance in such a short time-frame include the availability of power for purchase within the SPP market. However, SWEPCO cannot fully assess the market availability in view of the Transport Rule, with other companies simultaneously attempting to develop their own compliance and purchase plans, some of which may include retirement of existing capacity. Certainly, power availability is expected to be less than normal; thus, again resulting in higher costs to ratepayers. As mentioned above, technical transmission constraints may compound the decreased availability of market power, increasing prices even further.

3. Air Emissions Controls: SWEPCO is evaluating technical emission controls, which include installing low NOx burners and over-fire air systems, for example, at Flint Creek for operation in the 2013 ozone season (May to September). Further, SWEPCO and Central Louisiana Electric Company (CLECO) jointly own the Dolet Hills Power Plant in Mansfield, Louisiana, and it will be necessary to install a Selective Non-Catalytic Reduction (SNCR) system. There are timing and cost risks associated with these actions, because other companies are taking similar actions during the very short time allotted. There will be significant competition for material and labor; thus, again affecting ratepayers.

4. Allowance Purchases: SWEPCO will also be considering purchasing emission allowances as available, in order to compensate for shortfalls. There are risks associated with this strategy, in that if states exceed their assurance limits, there could be penalties associated with the purchases of allowances. Additionally, the availability of allowances is uncertain.

All of the above are compliance actions being considered solely to comply with the Transport Rule. However, compliance with the Transport Rule and the other proposed EPA rulemakings, are estimated to cost approximately \$1.3 billion dollars for SWEPCO alone, which costs will materially affect rates and our ratepayers.

V. Conclusion:

SWEPCO appreciates the opportunity to submit this Request for Reconsideration and Stay, particularly in light of the significant adverse impacts upon SWEPCO and ratepayers throughout SWEPCO's service territory in the states of Louisiana, Arkansas and Texas. SWEPCO also notes and appreciates the dialogue between the Agency and AEP, which has continued since the publication of the final Transport Rule. However, there were fundamental errors in the modeling that adversely affect the ability of SWEPCO to provide reliable and low-cost power to its ratepayers throughout the three states, and which can adversely affect every industry, business and all residents residing in SWEPCO's service territory.

SWEPCO respectfully requests that in light of the particular issues raised hereinabove, and in light of the requests, that the Administrator grant reconsideration of the issues identified herein, and that the Administrator stay the effectiveness of the final rule, while

maintaining the CAIR allowances currently in the compliance accounts for CAIR units, in order to maintain and continue the improvements in air quality achieved to date, with all appropriate remedies including those discussed hereinabove.

Respectfully submitted:

A handwritten signature in black ink, reading "Venita McCellon-Allen". The signature is written in a cursive, flowing style.

Venita McCellon-Allen
President and COO
Southwestern Electric Power Company

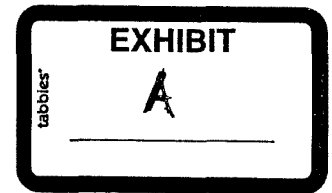
cc: Bobby S. Gilliam and Jonathan P. McCartney, Wilkinson, Carmody & Gilliam
Janet J. Henry, Deputy General Counsel, American Electric Power
Commissioners of the Louisiana Public Service Commission
Commissioners of the Arkansas Public Service Commission
Commissioners of the Public Utility Commission of Texas



HELPING OUR MEMBERS WORK TOGETHER
TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

September 20, 2011



Administrator Lisa P. Jackson
USEPA Headquarters
Ariel Rios Building
1200 Pennsylvania Avenue, N. W.
Mail Code: 1101A
Washington, DC 20460

Re: SPP's Review of the EPA's IPM Analysis of the Cross-State Air Pollution Rule, Docket ID No. EPA-HQ-OAR-2009-0491

Dear Ms. Jackson:

Southwest Power Pool, Inc. (SPP), in its capacity as a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) and a Regional Entity, is concerned that the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution Rule (CSAPR) without adequately assessing the reliability impacts of the CSAPR on the SPP region. SPP originally expressed concern with the reliability impacts of proposed regulations¹ in its July 19, 2011 comment letter to the EPA.

As required by the Energy Policy Act of 2005, FERC has approved mandatory and enforceable reliability standards promulgated by NERC with which the industry must comply. These standards were developed through a well vetted industry process identifying key requirements to ensure the bulk electric system meets an adequate level of reliability. Failure to comply with these standards can affect the ability of the power grid to operate reliably as well subject SPP and its members to financial penalties. These standards require that SPP's Transmission Planners ensure that transmission lines are not overloaded and that voltage is maintained within certain prescribed limits in the event of the failure of a single element in the system. Additionally, the standards require that Transmission Operators operate in real-time within certain limits. In order to meet the demands of the system there needs to be an adequate balance of generation and transmission availability both in the short and long term. The timing of the CSAPR regulations does not provide the SPP region with enough time to ensure that adequate balance.

Our reliability modeling² indicates that the CSAPR Integrated Planning Model 4.1 (IPM) results, as depicted by the EPA, are likely to cause SPP to be out of compliance with the applicable NERC standards as early as 2012. SPP's planning models identified 5.4 GW from the 48 generation units identified by the EPA with zero fuel burn in 2012 that would have been dispatched during the 2012

¹ On July 19, 2011, Nicholas A. Brown, SPP President and CEO, submitted comments to the EPA in Docket ID Nos. EPA-HQ-OW-2008-0667, EPA-HQ-OAR-2009-0234, and EPA-HQ-OAR-2011-0044, additionally providing SPP's preliminary assessment of the potential reliability impacts of proposed EPA regulations impacting generation in the SPP footprint.

² SPP removed all generation units in its models that consumed zero fuel in the EPA models. No other SPP model adjustments were made.

Summer Peak conditions. Our analysis revealed 220 overloads in excess of the required, 100% of emergency ratings under contingencies, and 1047 circumstances at various locations on the transmission system where voltage was below the prescribed lower limit of 90% of nominal rating. The statistics in this analysis must be viewed as being indicative, not definitive, results and are probably very conservative compared to what would be experienced in the real world should the modeled system conditions exist. An even clearer representation of reliability violations can be found by applying higher operability limits of 120% to the overloads. There were 16 such overloads on the system. Using a similar out of normal range there were 93 circumstances where voltage dropped below 85% of nominal. These “clear-cut” examples of standards violations represent the well founded concerns regarding the timeline with which the CSAPR would be instituted.

Additionally, 30 contingency scenarios did not solve, which is indicative of extreme system constraints, including the potential of cascading blackouts similar to what occurred in 2003 or which could require the shedding of firm load (that is, localized rolling black-outs initiated by utilities within the SPP region) to avoid more widespread and uncontrolled blackouts and to remain in compliance with reliability standards. Some of the contingencies could be resolved with other short-term transmission and/or resource solutions, but several could not. In those cases, SPP would be in clear violation of mandatory reliability standards and subject to penalty from FERC. However, SPP cannot be compliant with NERC’s planning standards without placing its generation owners in violation of EPA standards when the unutilized units in the IPM are unavailable to SPP. Further exacerbating this situation, SPP’s analysis also revealed that generation production from “small units”³ increased from 13 to 57 units deployed. Some of these units are likely subject to the reciprocating internal combustion engines (RICE) regulations, which were not evaluated as part of this reliability study. If we look beyond the summer peak hour studied, the unavailability of approximately 11 GWs⁴ of total capacity from the EPA model in SPP’s footprint would likely result in additional localized reliability issues.

The result of SPP’s reliability assessment of the EPA’s CSAPR IPM generation dispatch indicates serious, negative implications to the reliable operation of the electric grid in the SPP region raising the possibility of rolling blackouts or cascading outages that would likely have significant impacts on human health, public safety and commercial activity within SPP. These regulations further compound the reliability impacts addressed by SPP in its July 19, 2011 comment letter, which focused on the MACT regulations to be enacted in 2014/15. The time period between finalization of the CSAPR and its effective date is too short to allow SPP and its members/registered entities to appreciate the effects of the rule and to take actions to ensure reliability.

SPP supports a more flexible approach to meeting the emission requirements under the CSAPR, as stated in a joint letter from the New York Independent System Operator, Midwest Independent System Operator, PJM Regional Transmission Organization, the Electric Reliability Council of Texas, and SPP to the EPA in August. The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, SPP and its members may be placed in the untenable position of deciding which agency’s rules to violate, FERC or EPA. Putting an

³ “Small units” denotes those units generating 25 megawatts or less per unit.

⁴ Although the EPA model had additional units and capacity with zero fuel burn in 2012 (10.7 - 10.9 GW in total depending on the source of the Pmax), many of these units which were not dispatched in our 2012summer model will be needed during off-peak load periods to accommodate outages and to maintain system reliability.

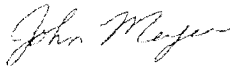
industry with critical infrastructure in the position of choosing which agency's rules to violate is bad public policy. SPP suggests that the EPA delay CSAPR's effective date at least a year to allow for investigating, planning, and developing solutions to assist our members in maintaining grid reliability and compliance with both its current regulatory bodies and all of the EPA regulations that impact the electric industry.

Your prompt attention to this matter is greatly appreciated. Please do not hesitate to contact me if you have any questions or would like to discuss this matter further.

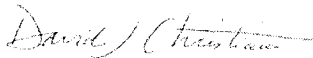
Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Nick Brown".

Nicholas A. Brown
President & CEO
Southwest Power Pool, Inc.
(501) 614-3213 • Fax: (501) 664-9553 • nbrown@spp.org

A handwritten signature in dark ink, appearing to read "John Meyer".

John Meyer
Chairman and Trustee
Southwest Power Pool Regional Entity

A handwritten signature in dark ink, appearing to read "David Christiano".

David Christiano
Trustee
Southwest Power Pool Regional Entity

A handwritten signature in dark ink, appearing to read "Gerry Burrows".

Gerry Burrows
Trustee
Southwest Power Pool Regional Entity

cc: SPP Board of Directors
SPP Regional State Committee
SPP Strategic Planning Committee
State Regulators in Arkansas, Kansas, Louisiana, Mississippi, Nebraska, New Mexico,
Oklahoma, and Texas



HELPING OUR MEMBERS WORK TOGETHER
TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE

Congressional Delegations of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
Governors of Arkansas, Kansas, Louisiana, Missouri, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas
North American Electric Reliability Corporation
President Barack Obama
Secretary of Energy Dr. Steven Chu
Federal Energy Regulatory Commission

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Delivery Address Bar Code

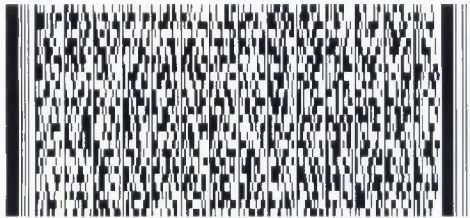


SHIP TO: (202) 272-0167

BILL SENDER

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
1200 PENNSYLVANIA AVE NW
ROOM 3000, ARIEL RIOS BUILDING
WASHINGTON, DC 20460

Ref # SWP/EPA - CSAPR
Invoice #
PO #
Dept #

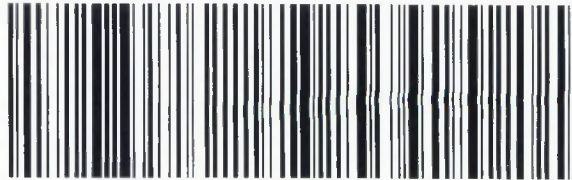


TRK# 7975 9528 8400
0201

X1 RDVA

THU - 06 OCT A1
FIRST OVERNIGHT

DSR
20460
DC-US
DCA



50FG1/A013/F5F4

After printing this label:

1. Use the 'Print' button on this page to print your label to your laser or inkjet printer.
2. Fold the printed page along the horizontal line.
3. Place label in shipping pouch and affix it to your shipment so that the barcode portion of the label can be read and scanned.

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