

FERC's Evolving View of Transmission Planning and Expansion

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Denver, Colorado
September 24, 2003

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Overview of Major Issues

- Order No. 2000 and the SMD NOPR;
- White Paper on Wholesale Market Platform;
- FERC's Proposed Transmission Pricing Policy;
- SeTrans: One Approach to Transmission Investment; and
- Final Thoughts

Order No. 2000 and the SMD NOPR

FERC's Two-Pronged Approach to
Expansion: Planning and Pricing

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Order No. 2000

- RTO Planning and Expansion:
 - RTO must direct or arrange for the construction of transmission upgrades and coordinate efforts with state authorities.
 - RTO process must encourage market-motivated investment and accommodate efforts by states to create multi-state planning agreements.
 - RTO must ensure that it will meet requirement no later than **three years** after initial operation.

Order No. 2000

- Order No. 2000 was very general and gave RTOs flexibility to craft transmission plans that worked for their region.
- Applicants free to propose innovative rates.
- FERC addressed specific RTO proposals on a case-by-case basis. Orders focus on planning issues such as:
 - Who will be responsible for performing studies?
 - Should utilities have a right of first refusal?

Order No. 2000

- FERC rejected a number of innovative rate proposals proposed by RTO Applicants.
- Why was FERC more concerned with the planning process than incentives?
 - RTO orders reflect FERC's belief that transmission expansion is hindered more from a closed planning process than from a lack of adequate incentives.
 - Participant Funding not yet on the radar screen.

FERC's SMD NOPR

- In its proposed transmission pricing policy and SMD NOPR, FERC acknowledges the need for investment incentives as well as participant funding.
- FERC still wants a transparent planning process; SMD NOPR planning requirements are more detailed than Order No. 2000.

FERC's SMD NOPR

- FERC's Planning Proposal:
 - FERC proposal encourages an RFP process with construction by private companies and all system modifications coordinated through a regional process.
 - RTO acts as clearinghouse for proposed projects.
 - Process should identify all expansion needs on the system, including both reliability and economic needs.

FERC's SMD NOPR

- All entities could propose projects, but if private parties do not step up, Transmission Owners would have an obligation to build.
- Multi-State Entities encouraged in order to preserve state role in siting decisions. FERC proposes four regional planning areas:
 - Western Interconnection
 - PJM, MISO and SPP
 - New York ISO and ISO-NE
 - SERC and FRCC

White Paper and Proposed Pricing Policy

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FERC's White Paper

- White Paper builds off the Order No. 2000 requirements rather than SMD NOPR.
- White Paper would make RTO participation mandatory.
- The RTO must satisfy the Order No. 2000 planning requirements as soon as practicable but no later than when it begins operations. Three-year grace period is gone.

FERC's White Paper

- The RFP process was abandoned. How entities participate in the planning process will be determined regionally. All market participants may propose projects.
- White Paper contemplates interim participant funding by an independent entity for a period not to exceed one year.
- RTO responsible for transmission planning and for directing or arranging expansions.

FERC's White Paper

- Regional State Committees to decide certain issues, including:
 - whether transmission upgrades for remote resources will be included in the regional transmission planning process;
 - the role of transmission owners in proposing transmission upgrades; and
 - the role of generation, transmission, energy efficiency, and demand response in resource adequacy.

FERC's White Paper

- Regional State Committees will also decide whether participant funding would be used for transmission enhancements.
- Problems with RSCs:
 - Role for RSCs is vague.
 - RSC's decisions must be filed with FERC; thus FERC maintains jurisdiction.
 - If RSC fails to decide, RTO must file its proposal with FERC; thus FERC maintains jurisdiction.

Proposed Pricing Policy

- On Jan. 15, 2003, FERC issued its proposed pricing policy. Incentives included:
 - Transfer of operational control to an RTO would qualify for an incentive adder of 50 basis points on the return on equity ("ROE").
 - Commission would provide a generic ROE-based incentive equal to 100 basis points for investment in new transmission facilities which are found appropriate pursuant to an RTO planning process.

Proposed Pricing Policy

- ITCs that participate in RTOs and meet the independent ownership requirement would qualify for an additional incentive equivalent to 150 basis points.
 - There must be no active or passive ownership interests in the ITC by market participants and no financial interests by the ITC or its employees in any market participant.
 - Conflicts with Order No. 2000, which found passive ownership, if properly structured, would meet independence test.

Concerns with the White Paper and Proposed Pricing Policy

- White Paper and proposed Pricing Policy demonstrate that FERC acknowledges the importance of participant funding and transmission expansion incentives; **but**
- FERC continues to say one thing and do another as evidenced by its decision in *Midwest Indep. Transmission Sys. Operator*, 104 FERC ¶ 61,298 (Sept. 16, 2003).

SeTrans Participant Funding Proposal

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Participant Funding - Objectives

- Incorporate the cost of transmission into all generation siting decisions.
- Ensure that transmission needed to keep the lights on gets built.
- Send effective price signals so market may choose from various solutions to congestion.
- Link benefits and cost responsibility for new transmission capacity.

Snapshot of Proposal

- Distinguish between reliability and economic investments in RTO planning process.
- Reliability investments, including projects for local load growth, are rolled into zonal rates.
- Economic investments, integration of all new resources, and congestion reduction are Participant Funded.

Economic Investments

- Economic investments will be Participant Funded, including investments to:
 - integrate a new generator;
 - reduce congestion not related to reliability;
 - allow changes in the designation of network resources by existing network customers; and
 - increase throughput into, across or out of the SeTrans footprint.

Economic Investments

- Participant Funded investments will not be rolled into the zonal rate.
- Funding Party will receive any FTRs created by the Participant Funded expansion.
- Participant Funding rules are still under development.

Reliability Investments

- Reliability investments include the following:
 - Replacement/changeout investments.
 - Investments to meet load growth.
 - Investments to meet new NERC transmission standards.
 - Investments to maintain firm physical service commitments.

Reliability Investments

- Parties, other than TOs, may propose Base Plan projects as well.
- Reliability projects generally rolled into zonal rate.
- RTO may order additional reliability projects built.

Construction of Projects

- Base Funded Projects
 - PO shall have the option to construct and own new transmission facilities located in its service territory.
 - If PO declines or is unable to build project, SeTrans ISA shall use issue an Request for Proposals (RFP).
 - No one responds to the RFP, SeTrans ISA can order PO to build.

Construction of Projects

- Participant Funded Projects:
 - PO shall have the option to construct and own new Participant Funded transmission facilities located in its service territory.
 - If PO declines or is unable to build project, that Funding Party may construct or it may request that SeTrans ISA issue an RFP to construct facilities.
 - If PO is the only one who can build facilities, it will use due diligence to do so.

How Would Participant Funding Work?

- Funding Party: pays for the transmission investment and holds the net FTRs created by the investment.
- Building Party: constructs and holds title to the physical facility
- Obligations of the parties would be set forth in a Participant Funding Agreement.
 - Tripartite Agreement filed with FERC.

How Would Participant Funding Work?

- Funding Arrangement:
 - Funding Party makes payments to Building Party for project construction costs as the Building Party becomes committed to such costs; **or**
 - Building Party could finance project up front and receive payments over time from the Funding Party.
- The Funding Party will be responsible for O&M, property taxes, gross-up for income taxes and associated upkeep costs.

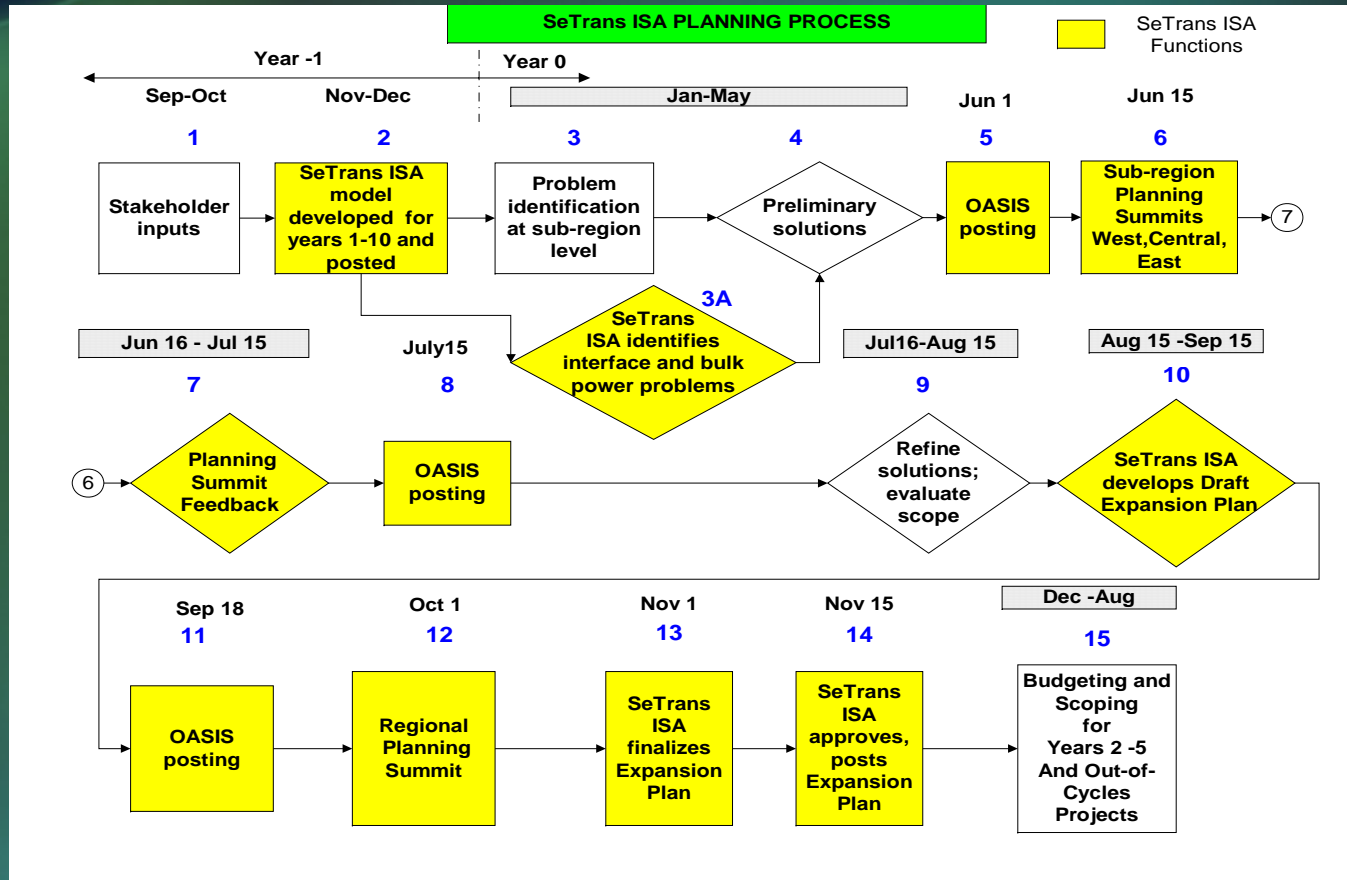
SeTrans Planning Process

- Transmission Provider will:
 - develop and approve the Annual Transmission Expansion Plan as well as direct or arrange for necessary transmission expansions.
 - identify potential expansion Projects to mitigate high congestion cost and alleviate congestion that may enhance generator market power.

SeTrans Planning Process

- During the planning process all stakeholders may submit proposed generation projects, transmission projects, system enhancements or DSM Projects.
- ISA will provide all stakeholders access to the draft transmission expansion plans.
- ISA will hold Sub-regional Planning Summits and Regional Planning Summits.

Planning Process



SeTrans Planning Process

- SeTrans ISA will receive advice and guidance from Reliability Planning Advisory Committee. RPAC will provide advice regarding:
 - computer simulation models,
 - facility connection requirements,
 - planning criteria and enhancement practices,
 - the reliability criteria,
 - procedures for TTC, ATC, TRM and CBM.

Conclusion

- FERC has begun to realize that the lack of transmission investment is not just a process issue but an incentive issue as well.
- FERC's orders still do not quite match up with the Commission's rhetoric.
- SeTrans process represents a fairly balanced approach to transmission planning and expansion.