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FEDERAL ENERGY REGULATORY COMMISSION
COMPETITIVE TRANSMISSION DEVELOPMENT TECHNICAL CONFERENCE
Docket No. AD16-18-000
June 28, 2016
9:00 a.m.
888 First Street, NE
Washington DC 20426
Commission Meeting Room 2C

- 1 Speaker List
- 2
- 3 Norman C. Bay-Chair
- 4 Tony Clark-Commissioner
- 5 Colette Honorable-Commissioner
- 6 Cheryl A. LeFleur-Commissioner
- 7 David Tobekin-FERC
- 8 Peggy Bernardy
- 9 George Dawe
- 10 Paul Dumais
- 11 Joseph Nachmias
- 12 Raja Sundararajan
- 13 Lawrence Willick
- 14 John Buechler
- 15 Jennifer Curran
- 16 Gary DeShazo
- 17 Maury Galbraith
- 18 Steve Gaw
- 19 Dennis Kramer
- 20 Robert McKee
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2 P R O C E E D I N G S

3 CHAIRMAN BAY: Good morning everyone. Please be
4 seated. We'll go ahead and get started. One housekeeping
5 announcement, there are copies of the revised agenda in the
6 back of the room and so please feel free to pick one up. So
7 this morning we will start with Panel 3, the Transmission
8 Incentives and Competitive Transmission Development
9 Processes. I want to thank all of our panelists for being
10 here today and I'll get started with Lawrence from LS Power.

11 MR. WILLICK: My name's Lawrence Willick. I'm
12 with LS Power. We'd like to thank the Commission for
13 continuing its effort in implementing and improving Order
14 One Thousand and for allowing us to participate in this
15 technical conference. LS Power doesn't see a direct link
16 between FERC's incentive policy and competitive processes.
17 We find transmission to be an attractive investment under
18 traditional cost and service rate regulation.

19 We find it attractive enough to be aggressively
20 competing, taking on additional risk, providing ratepayer
21 benefits through mechanisms like caps and we do that in
22 order to earn the right to undertake a cost of service
23 investment opportunity. So the other side of the coin is
24 that a winner of a competitive process shouldn't have any
25 different rate treatment including less access to the Order
679 incentives. Non-incumbent transmission developers

1 undertaking a transmission project face at least the same
2 risks as a traditional utility. In the simplest
3 example is abandonment recovery. The ability to receive
4 abandonment recovery in the event a project is cancelled for
5 reasons beyond the developers control is equally applicable
6 to a non-incumbent utility looking to undertake investment
7 and the same is true for the other incentives. There
8 shouldn't be any different treatment for a competitive and a
9 non-competitive project. Certainly the winner of a
10 competitive project shouldn't be penalized for creativity or
11 taking on more risk.

12 So this should only be the case if a developer
13 voluntarily agrees to forgo incentives as part of its
14 proposal. So if as a concession and a proposal a developer
15 agrees not to pursue certain incentives and obviously they
16 wouldn't apply. Overall the Commission's transmission rate
17 policies drive the level of competition to the extent
18 changes in policy serve to make transition investment or
19 opportunities for transmission investment less attractive,
20 there'll be fewer competitors and less robust competition.

21 So the Commission should continue its efforts to
22 encourage transmission investment and create more
23 opportunity for investment by non-incumbent developers to
24 attract robust competition. Thank you.

25 MR. SUNDARANAJAN: Thank you Commissioners and

1 thank you Mr. Chairman. From AEP's point of view, we
2 fundamentally believe that the Order 679 in 2012 policy
3 statement was created prior to the Order One Thousand
4 happened and we believe that the incentive policies are in
5 certain cases might not be well-suited doing for the
6 competitive transmission development model. One of the main
7 examples that it's not well-suited is a specific aspect of
8 timing.

9 We think that the solicitation windows in the
10 competitive process happen especially in the sponsorship
11 model where you have four months to actually come up with
12 the idea and submit the bid. In that case, having clarity
13 on incentives would go a long way for the developers to
14 tailor the bids and take upon the risks that reflect the
15 nature of the project.

16 The second thing, and the Commission actually has
17 recognized this issue with respect to the difference between
18 the incumbents and non-incumbents and are awarded to
19 developers in certain cases, the hypothetical cap structure
20 and the ability to recover reg assets as part of their
21 internal ratemaking. But however I think the next step the
22 Commission can go is the designation of non-ROE incentives,
23 equipment abandonment, having a framework for the Commission
24 to provide clarity on what projects would be authorized for
25 equipment abandonment so that the developers as they come up

1 with the proposals both in the sponsorship model or in case
2 of the competitive bid model can in our opinion would
3 provide clarity for them to adequately reflect on their
4 bids.

5 In our opinion that would go a long way in terms
6 of solving the timing issue and we would actually urge the
7 Commission to see if it can provide, if there is some way
8 whether it's respect to dollar threshold, with respect to
9 the threshold, that the developers can know in advance what
10 kind of incentives would be eligible especially the non
11 incentives before they can tailor the bids.

12 MR. NACHIMAS: Good morning Chairman Bay and
13 Commissioners. Thank you for the opportunity to be here
14 today. I'm Stuart Nachmias, President of New York Transco,
15 a transmission developer formed in 2014 to participate in
16 the New York ISO Public Policy Planning Process.

17 We now own the first new transmission built in
18 New York in the past 20 years, put in service on June 1st
19 and collecting its revenue requirement through the NISO
20 Tariff. I will first discuss challenges with
21 cost-containment provisions and then suggest a method to
22 encourage the prize stated yesterday by President Mroz
23 which is to achieve cost-consciousness or effective
24 management using the Commission's incentive policy.

25 Cost-containment provisions can be useful for

1 transmission investment and project management. As said
2 yesterday, what regulator can say no? however, if not
3 adequately defined, they could undermine the Commission's
4 objective of encouraging transmission development. As
5 discussed they're not always comparable and have many
6 off-ramps. As a result a firm cost-guarantee is not firm.
7 It oversimplifies the process of investing and developing
8 transmission, presents risks to both customers and
9 developers and potentially requires the RTOs and ISOs to
10 become an economic regulator, a position that the Commission
11 can and should fulfill.

12 Moreover, transmission innovation should be
13 encouraged as much as cost to bring long-term benefits to
14 customers and as discussed yesterday, this is particularly
15 an advantage of the sponsorship model, which is the model
16 used by the New York ISO. So what's the solution or
17 alternative that can work? Let the ISO or RTO focus on
18 capital costs as PJM indicated yesterday. The Commission
19 can continue to use its ratemaking and incentive policies to
20 encourage developers to properly manage their transmission
21 projects rather than have the ISOs or RTOs decide on cost
22 caps and their various exceptions.

23 Appropriate returns should be the tool for
24 encouraging effective cost management, a performance-based
25 incentive if you will. Appropriate ROE should be granted

1 recognizing the risks that the developer is taking on by
2 participating in a competitive transmission process. If the
3 project comes in on budget, the developer would earn it's
4 ROE plus incentives. If under-budget there should be the
5 potential to consider additional incentives for lower total
6 costs and if over budget the total ROE could be reduced
7 with ROE deductions for the overspend amount.

8 In any case, all prudently incurred costs would
9 be recovered. This proposal would support developer cost
10 commitments and recognize development management oversight,
11 meet investment requirements and customer benefits and the
12 need to establish a positive track record to effectively
13 compete and competitive transmission process and it's within
14 the Commission's current authority to implement.

15 On the other hand, the required write-off of
16 legitimate prudently incurred cost while it may sound good,
17 will have long-term unintended impacts and could chill
18 future transmission development. Thank you. I look forward
19 to your questions.

20 MR. KELLIHER: Good morning, I'm Joe Kelliher
21 with NextEra representing NextEra Energy Transmission a
22 subsidiary of NextEra Energy. FERC elected to promote
23 competition in the transmission projects in Order One
24 Thousand because it recognized that competition can help
25 control costs and create innovative solutions. But in our

1 view there's a disconnect between the Commission support
2 group competitive regional projects and it's rate policies.

3 It's important to recognize that there's not a
4 level playing field on competitive projects and incumbents
5 enjoy substantial advantages. Some of these advantages can
6 be addressed by the Commission, others are beyond its
7 jurisdiction. New entrants have turned to cost containment
8 not because they love risk but because they prefer winning
9 to losing and they would like to offset some of these
10 advantages and establish a more level playing field.

11 In my view, a competitive process that places a
12 premium on costs and properly credits cost containment will
13 be a much more effective check on cost than any kind of
14 prudence review. The threshold question is whether the
15 Commission wants to encourage cost containment and
16 specifically whether it wants cost containment proposals to
17 include or exclude ROE. Currently competitive transmission
18 companies confront the prospect of receiving the lower of
19 negotiated or litigated ROE.

20 If that has not changed it should be expected
21 that cost containment proposals would start excluding
22 negotiated ROE and simply rely on litigation. I'd like to
23 pose some options to try to avoid that outcome. First, the
24 Commission could establish a presumption that ORE in a
25 cost-containment proposal is just and reasonable for policy

1 reasons. The course of recognizing the Commission does have
2 the discretion of Park and DC Effman methodology when
3 setting rates.

4 Second, the Commission could establish a new ROE
5 adder for cost-contained bids. The Commission has
6 discretion to establish ROE adders for policy reasons that
7 are separate from DCF Analysis such as RTL Membership adder
8 and base ROE would be set using the usual DCF methodology.

9 Third, the Commission could establish a new
10 standard initial ROE for all new competitive projects by
11 competitive transmission companies. The Commission has set
12 standard initial ROE for gas pipelines for 20 years and that
13 policy has been very successful.

14 Fourth, the Commission could provide that a
15 cost-contained bid receive a base ROE on the high end of the
16 zone of reasonableness, reflecting the assumption of risk
17 that directly benefits transmission customers.

18 And finally a longer range options could be to
19 develop a different proxy group for competitive transmission
20 companies than for traditional state regulated utilities
21 given the different risk profiles of the two classes. Thank
22 you very much for your attention. I look forward to your
23 questions and answers.

24 MR. DUMAIS: Commissioners and FERC staff, good
25 morning and thank you for the opportunity to participate in

1 Panel 3. My name is Paul Dumais and I am Director of FERC
2 regulation for AVANGRID. AVANGRID results from the merger
3 of the former EPATROLLER USA with United Illuminating. We
4 own electric and gas delivery companies in New England and
5 in New York as well as extensive renewable generation
6 facilities throughout the United States.

7 AVANGRID is currently participating in
8 competitive transmission solicitations in New England and in
9 New York and my remarks support the continued use of
10 incentives to encourage the development of competitive
11 transmission projects. Granting of incentives by FERC has
12 had its intended effect in New England. Transmission
13 projects that address reliability needs have been build and
14 are still being built. They've eliminated congestion that
15 was costing customers hundreds of millions of dollars per
16 year and are resulting in a reliable transmissions system
17 that positions New England well for the future. The need
18 for incentives does not go away with competitive
19 transmission processes.

20 Developers of winning proposals will need to
21 attract capital given the risk of transmission development.
22 Though the base ROE must provide returns to enable the
23 utility to maintain and support its credit and raise needed
24 capital, risk-reducing incentives and incentive ROEs can
25 provide added support to address the risks inherent in these

1 larger competitive lead procured projects and they should
2 apply to both incumbents and non-incumbents alike.

3 One new risk in the competitive environment
4 results from cost-containment mechanisms such as
5 construction cost caps or fixed revenue requirements which
6 we have been talking about for the past through yesterday.
7 While these costs assurances may be attractive and
8 encouraged, they add risk to the transmission developer.
9 While the developer may offload some of this risk to
10 customers through car routes or to third parties, the
11 Commission should continue to consider risk-reducing
12 incentives and incentive ROEs to address the risk and
13 complexity of a project including the added risk of
14 cost-containment proposals.

15 The Commission should not make incentive ROEs
16 conditioned on the level of the base ROE. That was one of
17 the questions that was in the agenda and also upon a project
18 being selected in a competitive process. A transmission
19 developer would apply to FERC for the desired incentives.
20 FERC should not predetermine incentives as different
21 projects could warrant different incentives. Thank you for
22 the opportunity to provide these comments.

23 MR. DAWE: Good morning. I'm George Dawe with
24 Duke American Transmission Company. You have my written
25 comments so I'd like to touch on certain trends that are

1 going on in the development space. First, new developers in
2 development partnerships have emerged to compete for the
3 projects that were heretofore reserved for local utilities.
4 These developers are assuming unprecedented risk in capital
5 deployment by submitting project proposals that require
6 resource commitments earlier in the project lifecycle and
7 without the certainty of FERC-approved incentives or rate
8 treatments.

9 Second, competitive proposals involving
10 constrained timeframes, unique engineering solutions and
11 efficient land acquisition strategies require complex
12 contracting and procurement strategies. Developers rely on
13 many of the same construction firms, environmental
14 consultants and engineering firms to develop these
15 proposals. Competition for these limited resources
16 introduce another layer of risk and presents opportunities
17 and challenges for those involved.

18 Third, many of the competitive proposal
19 evaluations and comparative analyses conducted by RTOs have
20 resulted in controversial determinations, raising questions
21 about the transparency and subjectivity of the
22 administration of these processes. Confidence in the RTO
23 evaluation process is of utmost importance if developers are
24 to continue putting development capital at risk and
25 competing for development opportunities.

1 We believe that without a greater certainty for
2 developers or value to customers to expand the role of the
3 independent market and monitor or another independent entity
4 in each region to include responsibilities to process,
5 improvement, competitive proposal evaluation and ultimately
6 variance analysis in situations where there are cost and
7 schedule overruns. At a minimum, the Commission should
8 direct the IMM to audit the ITO evaluation process at the
9 conclusion of each competitive solicitation. From our
10 perspective, truly independent evaluation is the only way to
11 ensure competitive processes are fair, consistent and
12 transparent.

13 Finally, as cost has become a primary selection
14 factor in competitive solicitations, cost containment
15 appears to be the new normal. Cost containment was not a
16 consideration when the Commission issued order 679 in 2006
17 or its policy statement on transmission incentives in 2012
18 so there is a great deal of uncertainty about the
19 utilization and Commission approval of transmission
20 incentives as competitive processes are being implemented.

21 Based on these trends, we advocate for the
22 Commission to provide additional guidance such as through
23 issuing a policy statement to provide much needed clarity
24 with respect to cost containment provisions and the use of
25 incentives and rate treatments. Without greater clarity, we

1 believe there is risk that fewer developers will participate
2 in the processes going forward. Thank you and look forward
3 to your questions.

4 MS. BERNARDY: Good morning. I represent the
5 California Department of Water Resources which stores and
6 delivers water to over 24 million California residents and
7 irrigates nearly 700,000 acres of highly productive farmland
8 in California's Central Valley. Back in 1961, President
9 Kennedy visited Central Valley to attend the groundbreaking
10 ceremony for the San Luis Reservoir and Hydroelectric Dam.
11 The assumption at that time and an important basis for the
12 voters' approval of the state water project was the
13 expectation that power revenues would offset in part the
14 costs of providing water.

15 Today, our water users are spending close to 25
16 percent of project costs on power. The transmission costs
17 are nearly half of that. Instead of using power revenues to
18 offset the cost of water, California water users are paying
19 a high cost for the power to move the water. Indeed, the
20 transmission access charge has tripled since 2008.

21 DWR is very concerned about these costs and the
22 burden on California water users and is very grateful to the
23 Commission for turning its attention to this important
24 topic. DWR urges the Commission to continue to subject
25 transmission rate proposals to individualized scrutiny and

1 retain the balance of interest as set forth in your 2012
2 policy paper. Regarding the California ISO's processes,
3 regular competitive solicitations do occur and have drawn
4 ample responses. Cost effectiveness is considered and most
5 bidders do include cost-containment provisions of some sort.

6

7 The ISO's process, however lacks the stringency
8 found in typical public infrastructure bidding because for
9 example there's no effective apples-to-apples comparison.
10 The process lacks the public participation, transparency and
11 due process that is characteristic of this Commission's rate
12 review. For that reason, the fact that the ISO chose a
13 particular project does not establish that the rate proposed
14 is just and reasonable.

15 Participation in competitive bidding processes
16 cannot be deemed to substitute for this Commission's just
17 and reasonable review. At the San Luis groundbreaking
18 President Kennedy said "we are able to do anything." I
19 would add I think we still can but I think we should do so
20 cost effectively. Thank you for the opportunity.

21 CHAIRMAN BAY: Thank you. Tony?

22 COMMISSIONER CLARK: Thanks Norman and thanks to
23 the Panel for I thought very thoughtful comments. As much
24 as anything I think what the Commission is trying to get our
25 arms around or at least what I'm interested in getting my

1 arms around with this particular topic is to ensure that if
2 we move forward on really recognizing cost-containment type
3 bids coming through the transmission development process
4 that what is obtained for consumers on this one hand doesn't
5 sort of show up somewhere else on another.

6 So this sort of washes out and cost-containment
7 bids just kind of become a de facto way of doing business
8 but the rate really is all the same regardless. So with
9 that as a backdrop I think that drives probably a lot of the
10 questions that I'll have. The first that I have is I
11 realize we don't have anyone from a planning region on the
12 Panel but you all do business in a number of different
13 planning regions. I'm curious if you can give a sense for
14 how, or maybe you don't know how which is part of the
15 challenge, how each of the planning regions incorporates
16 into its thinking what incentives might ultimately be
17 granted by FERC when it goes through the selection process.

18 So as part of their vetting process they have to
19 be thinking "Well, the project sponsor will at some point be
20 getting something from FERC, here's what we think it will
21 be" and that helps guide their process. Is it clear how
22 each of the regions take that into consideration or is it
23 completely unclear which is part of the problem, which is
24 why we're here today. George?

25 MR. DAWE: Sure, thank you. I would say it's

1 somewhat unclear and I'll speak to -- well, it's unclear how
2 the RTO will use the information in their bid. They ask the
3 developer if they'll be utilizing incentives or if they will
4 forgo incentives. In the Midwest or in MISO that results in
5 a forecast of a 40-year ATRR but it's a very subjective
6 interpretation in our view. So that would be my two cents.

7 COMMISSIONER CLARK: I will go to Stuart and then
8 Raja.

9 MR. NACHMIAS: At least in the process that I'm
10 aware of, it's not considered. The NISO Tariff doesn't say
11 anything about considering incentives. It focuses on
12 capital costs as one of the elements and then there are some
13 other elements about a developer being able to deliver a
14 project. I think as far as the NISO is concerned, the
15 incentives is really left to FERC as economic regulator to
16 determine so it's not part of that. Part of the issue is the
17 NISO tariff doesn't even say anything about cost containment
18 bids and how to handle those and obviously that's a
19 difficulty in terms of just what the different exclusions
20 are.

21 Each cost-containment proposal is even different
22 so there's a lack of clarity of how to deal with any of
23 these issues.

24 COMMISSIONER CLARK: Raja?

25 MR. SUNDARARAJAN: Commissioner, in terms of our

1 experience primarily with PJM and SPP process. In PJM, what
2 PJM does require as part of submission of each of our bids
3 is language on what the cost containment situation is and we
4 have used a combination of both containment of capital costs
5 and also we've in some cases provided authority to RTO, we
6 will not be asking for incentives or if we asked for
7 incentives it would be limited to a non-ROE incentives is
8 predominantly our approach.

9 We actually think PJM doesn't, as Craig was
10 mentioning yesterday, I think they only consider capital
11 costs for consideration. We don't know so we don't think
12 they used incentive at making the cost of capital aspect as
13 part of the evaluation process but where it does come into
14 play is whatever cost-containment provision is put into our
15 bid, both the capital cost and other aspects of our
16 incentive that we put in does get translated to the DEA and
17 will be filed at FERC.

18 To that extent, whatever we have committed to, in
19 terms of whether they're asking for incentives or forgoing
20 incentives those do get capitalized in the designated entry
21 agreement between PJM and the developer and that will be
22 filed at FERC. We will obviously honor the bid that we made
23 as part of the rate-making process.

24 MR. DUMAIS: ISO New England hasn't had a
25 competitive solicitation yet. Their Order One Thousand got

1 approved in 2015, but in New England there's been a
2 competitive solicitation done by the States of Connecticut,
3 Massachusetts and Rhode Island. In that they asked for
4 proposals that were complete proposals and which included
5 return on equity and incentives and things like that which
6 they made it very clear that they were going to be
7 evaluating revenue requirement streams over time and that
8 would be one of the considerations.

9 In addition they said that they were going to
10 treat proposals that had cost-containment provisions
11 preferably over those that didn't. So as an entity that
12 submitted some bids into this we had to drill down sort of
13 very deeply as to okay, we want to be competitive because we
14 want to win but we also want to balance what our risks are
15 and return needs are. So in that my expectation is when
16 they select the winning bids which is supposed to be the end
17 of July it will be up to whoever the winners are to then
18 come to FERC and make our case for both the tariff including
19 the ROE, including the incentives. So that's how the
20 solicitation works.

21 COMMISSIONER CLARK: Thanks, Peggy.

22 MS. BERNARDY: Yes, thank you. As we heard
23 yesterday, the California ISO has fairly substantial
24 experience in implementing the Order One Thousand
25 competitive process and one of the things I would like to

1 point out to you is that their pro forma agreement with
2 project sponsors that's contained in the ISO tariff
3 contains a clause that he bidders will agree to maintain
4 their cost estimates and any cost containment provisions if
5 they have included that in their bid.

6 So far as we know there have been no project
7 sponsors breaching that agreement however we're not
8 completely able to see it. There's a lack of transparency
9 that we would like to explore remedying. We are not able to
10 see the bids at the ISO when they are put in. We are not
11 able to review at all the ISO's selection process until well
12 after the fact and then once the cases got to FERC for rate
13 review during the summary process we've not been able to see
14 the bids that were put in. we could get that in discovery
15 at hearing but not prior to that and I feel that some
16 additional transparency in that regard would assist
17 ratepayers.

18 COMMISSIONER CLARK: Thanks. Joe, you gave us a
19 list of things that the Commission might want to consider if
20 we go down this path, which I think if I understand
21 correctly basically falls into this bucket of ideas, almost
22 like a standard incentive that would be granted to certain
23 projects that make its way to the competitive bidding
24 process. I'm wondering from, first I'll ask you Joe and any
25 of the Panelists who will jump in.

1 Out of that list you gave us are there any that
2 you feel are particularly important? If you were to kind of
3 rank them or maybe their ranked in order how you gave them,
4 if you could just expound upon that a little bit and then
5 I'd be interested in hearing from other panelists to find
6 out if you think any of those are particularly ill-suited or
7 disagree with that or maybe some that there's some general
8 agreement around that if the Commission offered more of a
9 standard incentive for a type of project what would that
10 standard incentive look like?

11 MR. KELIHER: Let me try to explain really what
12 was driving, there's actually a common thread between those
13 four or five, four and a half proposals. One is just a
14 recognition that traditional and DCF methodology doesn't
15 fit, doesn't work very well where you're dealing with a
16 cost-contained bid where ROE might be negotiated element or
17 at least a bidded-element, fixed-element in a
18 cost-containment proposal because if you put in that kind of
19 proposal and you win, then you make your 205 to set rates,
20 the Commission Staff lacking contrary direction or a
21 different direction from the Commission they don't credit
22 that's a cost-containment proposal. They don't treat it any
23 differently than a non cost-containment proposal and they
24 don't give you any credit for the risk that you've assumed.

25 I'm not trying to be critical of that. I don't

1 see how they could do otherwise absent direction from the
2 Commission. So if DCF methodology is traditional DCF
3 methodology is what's applied in this context the developer
4 will always get the lower of negotiated or litigated ROE. I
5 do think at some point ROE stops becoming a component of a
6 cost-contained bid. You can try to sidestep it through
7 bidding a revenue requirement but as Craig said yesterday a
8 revenue requirement has some kind of embedded ROE in it so
9 it leaves the task of the RTO to ask "What ROEs are embedded
10 in this requirement?"

11 So if you recognize, if you think competition is
12 a good thing, cost-containment is a good thing,
13 cost-containment that includes ROE is a good thing and you
14 agree that the traditional DCF methodology doesn't quite
15 work because you get the lower of negotiated or litigated
16 ROE. What are ways to address that. The first one is just
17 grant a high level of def. The first one, they are sort of
18 in order. I was trying to pretend I was on that side of the
19 desk and which ones are, you know, the most viable or the
20 most attractive or the least the smallest change.

21 One is to grant some high level of deference to
22 ROE in a cost-containment proposal. The Commission can do
23 that. It's not wedded to DCF. There is actually a number
24 of court cases that say that very clearly so the policy
25 rationale would be, we like competition, we recognize that

1 if there are incumbent advantages. If we don't give this
2 kind of, I baulk a little bit at calling it incentive but if
3 we don't give this kind of treatment then cost containment
4 would be weaker and new entry might be less.

5 So you could say, the first one was basically a
6 presumption that ROE in a cost-contained bid is JNR. The
7 burden is on someone else to prove otherwise. So it can be
8 a rebuttable or it can be an irrebuttable presumption but
9 the Commission would probably tend to prefer a rebuttable
10 presumption.

11 The second would be a new ROE adder. So that way
12 you're recognizing these FNLP doesn't quite work but if we
13 like new entry, new entrants can get an ROE adder just like
14 RTO membership. To me I don't think that's very disruptive
15 and it's again a pure policy rationale. Do we want
16 competition, do we want entry? Does competition work
17 without entry, produces the same outcome that Order One
18 Thousand was designed to prevent or to change?

19 Third would be a standard initial ROE. Now the
20 Commission's been doing a pipeline site for twenty years.
21 The goal there was to encourage pipeline investment and it's
22 been extremely successful. I think the Commission has no
23 regrets about its approach on pipelines. Here, the policy
24 rationale isn't so much new investment, it's new entry.
25 It's competition.

1 I'm not saying the standard initial ROE would
2 have to be the same as it is for new pipelines but there
3 again if someone were to change, if the Commission would say
4 we're going to establish a standard initial ROE for all new
5 entrants. Define what a new entrant is because it can take
6 different shapes and the Commission will affirm that for
7 some period of time, I'm not saying like a project. Then
8 the Commission would on policy reasons tend to deflect
9 charges that that initial ROE is too high.

10 Then a long-term one is a different proxy group.
11 If competitive entrants are different they have different
12 risk profiles, then incumbents particularly in operating
13 incumbents in particular, then its -- it made me think of
14 the, nearly ten years ago the Commission was grappling with
15 "well what's the right proxy group for gas pipelines?" At
16 the time the universe of Sea Corps was shrinking, MLPs were
17 growing and the Commission was struggling with "well let's
18 throw in some diverse like-companies that have production or
19 gas utilities in the mix" and they realized you had
20 shrinking Sea Corps, you have MLPs, you had diverse like
21 companies that are either heavy on the production side or
22 heavy on the local utility side and it didn't quite work.

23 When the Commission finally accepted MLPs should
24 be in the proxy group but it mostly -- the Commission
25 recognized that the ROE that results from traditional DCF

1 methodology doesn't quite work where the risk profiles are
2 different are inappropriate for members of the proxy group.
3 The common thinking is that DCF methodology here isn't
4 working very well and would actually I think discourage
5 entry and cost containment.

6 COMMISSIONER CLARK: Thanks and is there any
7 strong agreement or disagreement with that. Yes, Lawrence?

8 MR. WILLICK: Sure, there was a lot there but
9 just to take it kind of along the list in the same order
10 that Joe had it I do, putting on my Craig Glazer hat, you
11 know having a presumption that an ROE out of a competitive
12 process is just as reasonable as putting the RTO in that
13 regulatory role that I think is problematic. I think that's
14 the biggest problem with the first option. The second
15 option, and I think we will get into this more and that's
16 sure that having an ROE adder for a cap is really you know
17 the direction of kind of eating into the cap, from having
18 that risk premium automatically on a capped proposal.

19 So I think kind of moving down the list to number
20 3, a standard ROE for competitive projects I think is
21 attractive. It would provide certainty to everyone at the
22 market, bidders as well as customers. Of course the devil
23 is in the detail of what exactly that ROE for competitive
24 projects would be but assuming it would be something that
25 would be established is just and reasonable by the

1 Commission and applied to competitive bids. I think that is
2 something that has merit.

3 COMMISSIONER CLARK: Thanks. Raja?

4 MR. SUNDARARAJAN: I think where AEP's approach
5 is a little different from NextEra's approach. NextEra's
6 approach is that I put in my bid with cost caps often in the
7 provision and by definition there is a transfer of risk from
8 the ratepayer to the developer. I need to be compensated
9 for the transfer of risk. AEPs approach is a little
10 different in terms of first we would like to know what
11 amount of risk are the ratepayers taking? What is the -- if
12 the Commission can provide clarity of incentives up front
13 then in our opinion the competitive forces will tailor their
14 bids so that they can appropriately put in their bids
15 because they know you have an upfront certainty and what
16 incentives you will be eligible for both as an incumbent or
17 as a non-incumbent.

18 That's another thing that you need to be
19 recognizant about is symmetry to treat competitive entrants
20 as a new class, which is fundamentally different in more and
21 more instances than not, competitors both incumbent and
22 non-incumbents are all going after the same projects in an
23 RPO. In our opinion having that upfront clarity of intent
24 will provide a certainty for both incumbents and
25 non-incumbents to tailor the bids and then put in their bids

1 so that by definition a transfer of risk could already
2 happen, there is no later justification of "oh -- I put in
3 the cost caps so now my project is more risky and I need to
4 come back and ask for incentives". But that becomes your
5 negative.

6 MR. NACHMIAS: I don't disagree with what Joe
7 said as options. I think our proposal is a little bit
8 different but I start at what exactly is a cost-contained
9 bid? I don't know that anyone has defined that. I know in
10 New York what the Public Service Commission suggested that
11 developers bid that if the costs are higher than the bid, 20
12 percent of the overrun would be in essence written off by
13 the developer and 80 percent of the prudent costs would be
14 recoverable and they proposed it to be symmetrical. Then on
15 the downside there'd be an incentive of 20 percent of cost
16 under-runs.

17 In any event, I think what a cost-contained bid
18 is saying is that a developer is taking on more risk and
19 would write down over-runs. I think what Joe is suggesting
20 is various ways to recognize that risk and reflect in a
21 higher ROE either with an adder, a different proxy group,
22 etc. A couple of options. And that winds up being a risk
23 and a write-off and a benefit to customers.

24 What we're suggesting is maybe a symmetrical
25 approach as an alternative or maybe in concert with what Joe

1 is suggesting is tell the developer that if you go over
2 budget, maybe you'll have an ROE deduct. You'll certainly
3 give up some incentives and maybe you earn less on that. In
4 effect a benefit to customers because the earning is lower
5 but that allows for investors to get around that at least
6 the prudently incurred cost would be recoverable.

7 On the other hand, on the downside and this is
8 where symmetry is important and I really struggle with how
9 to achieve symmetry on the downside because costs not
10 incurred can't really be rate-based. But you could have an
11 incentive where if the costs come in under the cap that was
12 proposed an additional ROE incentive could be granted
13 because what you're doing is rewarding them for coming in
14 under-budget. Still part of the competitive process.
15 Still everybody has to give their best bid to be able to win
16 as part of the process and part of the consideration but
17 another alternative with how to balance the symmetry and
18 maybe works in tandem with what Joe is suggesting.

19 COMMISSIONER CLARK: Almost like a
20 quasi-performance-based ratemaking.

21 MR. NACHMIAS: It is. Like a performance-based
22 type of ratemaking in a sense. Exactly.

23 COMMISSIONER CLARK: Thanks. George.

24 MR. DAWE: Thank you. I would say that if an RTO
25 has accepted the project in a regional plan and it's going

1 to be released as a competitive project, it should have a
2 standard set of incentives. The regional based ROE/non-ROE
3 incentives such as quit, abandonment, hypothetical capital
4 structure, I think those will all be helpful to a developer
5 that to get some certainty up front as they prepare their
6 bid. As a developer, I won't know what other incentives if
7 any that I'll need until I get into the location-specific
8 aspect of developing, you know, the project.

9 At that time it may become clear to me. It
10 certainly will become clear to me once I understand all of
11 the locational risks, the administrative risks, the
12 regulatory risk of that project whether or not I'll put a
13 cost-containment on that bid.

14 COMMISSIONER CLARK: Peggy?

15 MS. BERNARDY: Yes, thank you. I certainly
16 understand the desire to reach certainty on the part of the
17 developers and I do understand that however I would urge
18 caution on part of the Commission in going too quickly to
19 standardization. I think we do see some sort of
20 calcification with these long-term incentives being placed
21 into the rates. We would not be in favor of predetermined
22 formula necessarily for incentives. I think as we prepared
23 for this conference we were thinking about various ways a
24 developer might construct it and of course we're not on the
25 inside of that conversation so it's an imaginative process.

1 We did come up with a wide divergence of options
2 and I think that as you'll see at this conference there'll
3 be a whole mosaic of different things that would work in
4 different places. I think waiting for the RTOs to mature in
5 their competitive bidding process would be a wise move in
6 order to see how this whole mosaic of different incentives
7 is developed at that level. We would be opposed to
8 rebuttable presumption as been discussed.

9 I would also mention we're concerned about some
10 of these incentives getting locked in place for a very long
11 time and one example which is probably something that we
12 don't fight that much about but we do bring up from
13 time-to-time is the RTO membership incentive and so I've
14 heard today that is proposed for new members to address the
15 risk of membership in an RTO.

16 In California we have PG&E who's been the
17 dominant power sector company in Northern California for
18 over 100 years getting an RTO membership incentive. That
19 really doesn't make sense to us so we would ask the
20 Commission to continue its individualized scrutiny of these
21 incentives at the ratemaking stage.

22 COMMISSIONER CLARK: Okay, thank you. Paul?

23 MR. DUMAIS: Yes, just briefly. I don't think
24 that FERC needs to pre-establish incentives for different
25 projects. I know for AVANGRID, when we bid into a project

1 we look at what we need to make it work for us and at the
2 same time being as low cost and meeting the needs of the RSP
3 and just kind of as an aside the transparency things that
4 were mentioned yesterday I think are really key.

5 It's very important for all of the developers to
6 understand the rules that the RTO is using and how the
7 projects are going to be ranked so that we all have a level
8 playing field to start with. But then we feel that it's
9 incumbent on us if we're selected that we'll come to FERC
10 and we will make our proposal to FERC and is that includes
11 having to justify why we need a hundred basis point ROE out
12 of our project you know we will do that and given your
13 policy statement in 2012 where you look at the
14 project-specific risk and sort of trying to balance
15 everything looking at the quip and you know, those non-ROE
16 type risk reducers.

17 I actually think the competitive process actually
18 brings out creativity in the ratemaking side too. That, I
19 think if you predetermine things you're apt to lose some of
20 that creativity.

21 COMMISSIONER CLARK: Thanks to everyone.

22 CHAIRMAN BAY: Thank you, Tony. Collette?

23 COMMISSIONER HONORABLE: Thank you, Mr. Chairman.
24 Good morning everyone. I appreciate your pre-filed comments
25 as well as your presentations today. I don't even know

1 where to begin and Tony thank you for going through Joe's
2 list. Joe, I appreciate that you ranked them because you
3 were probably reading my mind on a couple of those, I'd like
4 to talk with you about them.

5 I want to say first that, I want to make a
6 comment and then we will get to some questions. I hope that
7 we are able to keep our eyes on the prize. What is the
8 prize? It's building transmission efficiently, cost
9 effectively and in ways that benefit consumers and when
10 businesses bring their ideas to the table we want them to be
11 compensated for them and we want to spur competition that
12 brings out the best, that brings out the best in
13 innovation, efficiency, getting it built timely.

14 I must admit, I'm concerned at some point that we
15 are getting caught up in the elements of this process and
16 not focusing on the end game. The end game is, in my
17 opinion, doing this in a way that benefits consumers and
18 then developers are winning too. I often say that the
19 ratemaking process is an important one because it benefits
20 consumers and those who are working to keep the lights on.

21 It benefits consumers when developers are getting
22 good ROEs, when you are able to attract investment, when
23 you're getting good credit ratings from Wall Street. That
24 absolutely benefits consumers but at the end of the day I'm
25 wondering if we're getting caught up in this game of

1 developing more incentives and processes outside of the
2 traditional ratemaking process which I still find value in.

3 Now, your points to those of you who referenced
4 concerned about the application of the DCF methodology to
5 this work, I appreciate that. I fully appreciate that there
6 is a disconnect between our traditional work here. I'll be
7 the first to admit it takes a while to sort through and the
8 need to be able to move more nimbly and quickly through the
9 competitive processes.

10 Having said that I do want to talk about some of
11 the things that I've heard. The gentleman from AVANGRID,
12 what a lovely name for a company. You indicated that you
13 believed the Commission should not make incentive ROE's
14 conditioned on the base ROE. So in light of my intro, tell
15 me why it should not be connected? I admit, and I think Joe
16 and a few who know me well, I am a regulator and have been
17 for some time and I want to be able to be creative and
18 nimble and move as the industry is moving but I'm having a
19 hard time connecting why this, the incentives and ROEs
20 associated with projects should be unto themselves.

21 MR. DUMAIS: Okay, thank you for the question. I
22 guess I will look to an existing project that Central Maine
23 Power Company in New England, Maine Power Liability where
24 there's an incentive ROE that floats on top of the base and
25 I guess the base, as I look at it assumes sort of your

1 portfolio of assets you know which you've got small
2 transmission projects and larger transmission projects and
3 it's sort of the average where the incentives, granted, at
4 least the incentives that I've seen FERC grant, ROE
5 incentives tend to be on bigger, riskier projects.

6 And so the way I look at is those projects, the
7 developer as well as FERC has decided that in order to move
8 these forward if the incentive provides the impetus for the
9 developer moving in the direction of completing the project,
10 managing the project. I think it just works best when that
11 floats on top of sort of your average base ROA so what I
12 wouldn't want to see happen would be if capital market
13 conditions changed and base ROEs needed to go up that would
14 then eliminate some of the incentive that you have.

15 I mean, we already have that situation to a
16 degree with the top end of the range capping some of the
17 incentives and I just wouldn't want to see that happen
18 anymore. Just like if capital market conditions are low and
19 base ROEs tend to be lower, I don't think you need a bigger
20 incentive.

21 COMMISSIONER HONORABLE: I don't think everyone
22 agrees with that. I can agree with that premise but I don't
23 think everyone in the room does, but go ahead.

24 MR. DUMAIS: Okay. So I think I was concluding.

25 COMMISSIONER HONORABLE: I also would like to

1 talk about your 4th factor, setting the ROE at the high end
2 of the zone of reasonableness and I also will invite Mr.
3 Dawe from Duke ATC to join in because yesterday we heard
4 from John Hughes from ELCON that this work, building
5 transmission and putting forth a proposal that encompasses
6 your cost and trying to stay within that; that's something
7 that's within your ordinary course of business.

8 Now I think we heard George today talk about why
9 these projects are different and that the risks are
10 different, inherently in this type of work but I need your
11 help in understanding why this is an option that the
12 Commission should consider outside our traditional
13 ratemaking processes.

14 MR. DAWE: Okay. First of all, you reference
15 John's statement. His statement surprised me because it
16 reflected a view that somehow there's some really effective
17 FERC Prudence review of a regional transmission projects
18 that I am not aware really exists. When I was at the
19 Commission, one complaint I heard from state regulators very
20 consistently wasn't a lack of transmission investment. It
21 was about cost overruns on regionally planned projects and
22 the view of many state regulators was that if relatively low
23 bids are put in, someone wins a not necessarily competitive
24 regional process then, I'm just going to make up numbers, 50
25 percent cost overrun and there is no FERC prudence review

1 policing that.

2 I thought Order One Thousand was really a
3 response to that, an elimination in order for an
4 introduction to competition. FERC I think viewed it as a
5 more effective way to control those costs and then somehow
6 actually having FERC rate cases on the cost of regional
7 transmission projects and trying to knock a nickel off here
8 and there. For example, the view that competition has more
9 of an effect on pleasing cost than classic you know
10 after-the-fact prudence review. So anyway his comment
11 surprised me. And now I've completely lost your question.

12 (Laughter)

13 COMMISSIONER HONORABLE: Okay, persuade me on
14 your point.

15 MR. KELLIHER: Number four?

16 COMMISSIONER HONORABLE: Yes.

17 MR. KELLIHER: Yes, okay. Well if the current
18 proxy group represents a group of companies that are going
19 to have risk profiles very different from a new entrant
20 putting in a cost-contained bid. That new entrant putting
21 in a cost-contained bid is assuming a much higher risk than
22 the current proxy group. So somehow, setting the ROE at the
23 midpoint or putting it on the usual spectrum of a proxy
24 group that is not representative of the risk who's ROE
25 you're actually setting is not going to produce, to me, the

1 correct outcome.

2 So if you recognize they are higher risk than the
3 proxy group members then they should be higher, like higher
4 end of the spectrum. As the reverse it would be true if
5 somehow they were much lower risk than that proxy group and
6 it's hard to think about who would be at much higher risk
7 than the traditional proxy group for an electric
8 transmission case. They should be on the lower end of the
9 proxy groups perhaps. So it's more that the risk is
10 different than everyone else in the proxy group so putting
11 them at the usual point in that continuum under rewards them
12 given the risk that they've assumed.

13 COMMISSIONER HONORABLE: So you're saying on top
14 of all of these incentives and keeping in mind that when you
15 put in a bid you should be striving to meet your costs, then
16 you go to the higher end of the --

17 MR. KELLIHER: I'm not saying incentives plus
18 that. I'm sorry. Some of these options are mutually
19 exclusive so I think if you did that and said a new entrant
20 with cost-contained bid, they'll be at the high end of the
21 zone of reasonableness. I think that's it. They are not
22 getting an ROE add-on on top of that.

23 COMMISSIONER HONORABLE: Okay.

24 MR. KELLIHER: And they're not getting the
25 standard initial ROE. Some of these are mutually exclusive

1 options.

2 COMMISSIONER HONORABLE: George?

3 MR. DAWE: Thank you. I would say that just as a
4 developer in a competitive environment, I need to do so much
5 more, more quickly than the traditional transmission
6 development process. It's contracting with construction
7 contractors up front, environmental firms, engineering
8 firms, spending money too so that I know what my costs will
9 be and can submit a really fine-tuned bid. Now whether or
10 not I choose to contain that is a decision for me and my
11 board and things like that but I do need to stress that
12 it's not traditional transmission development. It's really
13 accelerated transmission development and there's risks to
14 that.

15 Certain incentives non-ROE type of incentives
16 aren't granted. The developers don't know that up front.
17 Many developers just won't take that risk and so you're
18 going to fewer people doing that. We're about to move into
19 an environment where we're not talking about a 12 million
20 dollar project in SPP or a 60 million dollar project in MISO
21 or substation upgrades at the seams of PJM and myself.
22 We're talking about environmental regulations that are
23 requiring plants to retire, the potential clean power
24 plants, some version of it coming down the road.

25 By all accounts, that will drive billions of

1 dollars of transmission investment which I think you want,
2 the public and consumers want that to be competitively
3 driven. So we'd like to get the rules of the road straight.
4 We'd like to have the transparency and some certainty with
5 how the RTOs are going to evaluate those bids.

6 COMMISSIONER HONORABLE: Thank you. Peggy?

7 MS. BERNARDY: Thank you. We have a hard time
8 understanding the need for an incentive ROE in the
9 California ISO. There has been plenty of applicants.
10 There's been plenty of bidders and I believe there was only
11 one competitive solicitation that gave rights to only a
12 single bidder. So it think we have a healthy, competitive
13 environment at the ISO and when you start to segregate these
14 risks and try to understand what risk is actually being
15 addressed by an incentive ROE we can understand the concept
16 of it but I don't think it's easy to see in reality where
17 than can actually be segregated out of the traditional
18 methodology that is used to develop the base ROE. I think
19 sticking with that and looking at that on an individualized
20 basis is the way to go.

21 COMMISSIONER HONORABLE: Thank you. For me, it's
22 about understanding the true nature of the cost because
23 consumers are paying that at the end of the day. Raja?

24 MR. SUNDARARAJAN: The one other thing that we
25 would like for the Commission to consider is when

1 cost-containment provisions are re-proposed, it's not just
2 by the new entrants. It's also proposed by the incumbents.
3 So the concept of if you start setting ROI that is different
4 from a traditional VCF approach now suddenly what if an
5 incumbent proposed a cost-containment provision in this
6 designated project? What happens then? Now suddenly you're
7 deviating from the traditional VCF, that is applicable for
8 all other transmission projects. Do you set the new ROE for
9 that specific project that is different from others?

10 There are other ramifications we can vote on
11 their own that we would want to consider as opposed to --
12 and that's why we thought about these and we felt there were
13 too many issues that brings into the equation when you start
14 isolating ROEs separate from new entrants as opposed to the
15 incumbents because we fundamentally believe that these are
16 true voluntary caps that are being proposed both by
17 incumbents and by non-incumbents as part of the competitive
18 process.

19 These are voluntary decisions and as long as we
20 get clarity up front with respect to the incentives that are
21 hopefully both beneficial to ratepayers and to developers
22 which are primarily non-ROE status. I mean that incremental
23 stuff will go a long way in terms of providing the clarity
24 both incumbents and non-incumbents can do in terms of
25 tailoring their bids and submitting as part of the

1 competitive process as opposed to a different approach for
2 new entrants that will be fundamentally different for
3 incumbents.

4 COMMISSIONER HONORABLE: Yes, Stuart?

5 MR. NACHMIAS: Yes, I just want to add that the
6 risks in transmission development are clear. So even if we
7 put in a bid and there's a cost cap in that as a developer
8 we're looking to implement, we still have to go through the
9 ISO or RTO process, through selection. The certainty of
10 timing of that. Then we have to go back and get sitting
11 done, if there are expansions of right-of-way or new
12 rights-of-way. So when construction actually begins and as
13 we work through that there is risk in terms of equationary
14 measures. Are we going be able to get contractors at that
15 point in time? What other projects are going to be
16 underway. What is available then and how to manage through
17 that whole process?

18 So there's, even putting in your bid and having
19 that locked in in some way, right, and then managing that
20 process. these are risks to go. These are very long
21 processes. They take years before we are able to see a new
22 transmission particularly long distances get built and
23 implemented and I just wanted to note that.

24 COMMISSIONER HONORABLE: Thank you and congrats
25 on getting your new project under way. Okay, my last

1 question really touches on something that Peggy mentioned
2 about where we are with incentives generally and I wondered
3 whether there are incentives that we no longer need now. I
4 might know what Peggy's perspective is. She has given us
5 some thoughts about that but I wanted to ask the other
6 panelists because I agree that incentives can be a very
7 useful tool to encourage performance and to work toward the
8 accomplishment of policy objectives.

9 I also think it's healthy to take a look at where
10 we are in our use of incentives and how they have aided in
11 the achievement of certain objectives as it relates to
12 transmission development. Are there any that could sunset
13 in your opinion.

14 MR. KELLIHER: Sure. I never liked the
15 technology adder. Now, it's disfavored. I'm not sure it's
16 still alive at the Commission, it's been disfavored but I've
17 never liked the technology adder. It wasn't performance
18 based and anyway I was never a fan of it but Congress was
19 --.

20 (Laughter)

21 COMMISSIONER HONORABLE: You still know our
22 world, don't you? (Laughs) Raja?

23 MR. SUNDARARAJAN: Well, I do have to say that
24 AEP obviously is investing uniquely in technology for
25 transmission. We are developing a new transmission line

1 which is called a bow line.

2 COMMISSIONER HONORABLE: Bow line?

3 MR. SUNDARARAJAN: The bow line -- the
4 breakthrough overhead line design is what we call it which
5 effectively carries twice the capacity of the traditional
6 line at a much lower visual impact. We actually think that
7 one of the reasons why we took the effort and time and
8 effort to develop a new line design is the potential
9 development of the technology down the line.

10 If we take away the need for technology adder
11 unilaterally for all projects that would send a significant
12 signal especially to entities like us. We spend a lot of
13 time and engineering and design with respect to technology
14 and implementing new technology in the process.

15 COMMISSIONER HONORABLE: And R&D.

16 MR. SUNDARARAJAN: Yes.

17 COMMISSIONER HONORABLE: So it's interesting. I
18 had a conversation with staff as we were preparing for this
19 technical conference about this particular incentive and the
20 fact that maybe in places in New England or the Northeast
21 portions of the country there are some innovative proposals.
22 I'll go to Peggy.

23 MS. BERNARDY: I was just going to say though
24 it's not quite a response to your question that we do
25 support certain non ROE incentives such as the regulatory

1 asset, hypothetical capital structure, even a formula rate.
2 In a lot of ways we see this has been effective in reducing
3 risk and benefits the ratepayers in terms of lower overall
4 costs so we would support that.

5 COMMISSIONER HONORABLE: Thank you. Now you're a
6 bit more evenhanded in your discussion. Paul?

7 MR. DUMAIS: Quickly. I think the policy
8 statement back in 2012 where FERC is going to look at a
9 project and tailor the incentive needs to the project is the
10 way to go and Commissioner Honorable I think that when your
11 children do really well in school you should reward them

12 (Laughter)

13 In some way.

14 COMMISSIONER HONORABLE: I do. Some of what I
15 heard yesterday says you don't get a cookie for getting good
16 grades. You ought to get good grades every quarter.

17 (Laughter)

18 MR. DUMAIS: and I can tell you just the impact
19 that incentives have within a company that is an
20 international company in getting the attention of the
21 parent, it does make a difference with channeling the
22 energies and the capital and all into a successful project.

23 COMMISSIONER HONORABLE: I do appreciate that
24 coming from a state regulatory chair and that the
25 considerations of a company are different in where you are

1 investing your dollar. I greatly appreciate that. Stuart?

2

3 MR. NACHMIAS: So overall I think some of the
4 incentives like on new technologies and innovation can be
5 very useful in terms of encouraging that kind of behavior,
6 maybe congestion reduction incentives which provide benefits
7 to customers and we've talked about some other incentives
8 that might be helpful here today. Maybe performance-based
9 incentives or incentives for competitive development.

10 I think the one, I'd be remiss to say, the one
11 that is always controversial I think with state regulators
12 is the RTO participation incentive and so that is you know,
13 an available incentive today, without commenting one way or
14 the other I just know that that is a sore point for state
15 regulators and I'd be remiss to not point that out.

16 COMMISSIONER HONORABLE: Thank you. I'm sure the
17 Narick folks in the room would appreciate you saying that.
18 Joe?

19 MR. KELLIHER: I think FERC incentive policy has
20 been very successful and it is important to remember what
21 the situation was before the policy was established. We had
22 seen very low levels of transmission investment. Transition
23 investment peaked in the 70s and it was on a downward slope
24 since then. FERC incentive policy was designed directly to
25 change the direction of that investment and it has been

1 successful so I think the policy has been very successful.

2 Some would argue "well, that would have happened
3 anyway" and I just don't believe that. Some state
4 regulators when I was on the Commission would complain FERC
5 transmission incentives were so generous that it biases
6 investment on transmission versus other solutions so that's
7 at least an anecdotal suggestion that it did change
8 investment decisions.

9 But RTO membership adder, that I think is still
10 important. I mean, what was the Commission's goal in the
11 RTO membership adder? It was to try to address vertical
12 market power. The Commission's view is that RTO membership,
13 vertical market power is harder to exercise in an RTO
14 context. The Commission thought there was value in reducing
15 the risk of vertical market power so therefore provided a
16 pretty modest adder.

17 Now the fact that people have been RTO members
18 for a long time doesn't eliminate the possibility that
19 someone could actually seek to exit. I think the
20 Commission's order in LG&E is widely misunderstood. They
21 think it's easier to exit than I think it actually is, but
22 if their perception is well we can leave and the Commission
23 believes that RTO membership has a value in reducing the
24 opportunity for vertical market power then I think
25 continuing the adder still has value if there's a perception

1 that exit is easier than I actually think it can be.

2 COMMISSIONER HONORABLE: Thank you for the
3 Historical perspective, George.

4 MR. DAWE: Thank you. I would be reluctant to
5 take any incentives off the table because I think that it's
6 good to have a lot of things to choose from if they're
7 needed. I would point out though that I think the ROE
8 adders for the riskiness of a project tend to be in conflict
9 with the concept of cost containment. We can get into these
10 deep discussions about what is cost-containment but I tend
11 to think that there is less of a need to ask for multiple
12 basis points above and still try to deliver the project at
13 the lowest cost which is what essentially you're saying in a
14 competitive bid.

15 COMMISSIONER HONORABLE: Thank you. Great
16 discussion. I appreciate your thoughts. Mr. Chairman.

17 CHAIRMAN BAY: Thank you Colette. Cheryl.

18 COMMISSIONER LEFLEUR: Well, this has been a
19 terrific discussion. A lot of the themes I wanted to probe
20 on have been discussed and I want to try to take a look at
21 where we go from here and some of the mechanics of what
22 we're talking about. So I'm trying to imagine if we
23 envision ourselves reopening the 2012 Policy statement to
24 try to take a look at what we're going to say
25 post-competitive bidding in Order One Thousand and I will

1 say it wasn't east to agree on that much clarity so it's a
2 little bit of a daunting task to think of recalibrating
3 incentives but it does seem that the Order One Thousand
4 process has really changed the game in a lot of ways.

5 So the first thing I want to probe on is generic
6 versus specific incentives which has been eluded to a few
7 times. The premise of the way that it's been done under 679
8 and the policy statement are other than the RTO adder,
9 almost every incentive has to be justified by the company or
10 the project. Sometimes by both. You look at not just how
11 risky is the project, what are the risks and challenges but
12 how risky is it for that company. That doesn't necessarily
13 seem to fit well with the process of companies going out and
14 competing to do projects.

15 So for starters are there some incentives we
16 should just do generically and not keep having case after
17 case? I'm thinking of Quip, abandonment when it's shown
18 that it was not in the company's control. I'm not talking
19 abandonment like you think you might be chosen then you
20 weren't chosen. I mean like you were doing it and then it
21 was abandoned.

22 Potentially regulatory asset before the project
23 goes in should we maybe get some of those set up so those at
24 least aren't floating around in the process and leave the
25 ones that are variable to others? I guess that's my first

1 question. Is there consensus on that? I heard a couple
2 people say it or is there a problem with that?

3 MR. DAWE: I would agree. I would go back to
4 what I said earlier. If the plan has been accepted or if
5 the project has been accepted in the regional plan I think
6 that's the condition that should be met and I'm recalling
7 earlier that that's what the Commission would do. If a
8 developer came with a proposal they would conditionally
9 accept that proposal based on it being accepted in a
10 regional plan. I think when doing this process that happens
11 ahead of time.

12 Perhaps not in PJM, I'm unclear on that one but I
13 think CAL, ISO, SPP, MISO. It would make sense to me anyway
14 for certain standard incentives.

15 COMMISSIONER LEFLEUR: That is what I meant. I
16 didn't mean incentives for bids, I meant incentives for a
17 project that was chosen. Paul.

18 MR. DUMAIS: I agree with the direction that
19 you're headed. I think in my review that I try to follow
20 the FERC incentive orders. You know, many times FERC gives
21 the non-ROE ones upon showing of risk and things like that.
22 So I think what you're suggesting makes sense. One thing
23 that I'll mention in the New England Clean Energy RFP one of
24 the conditions is that customers cannot be charged until the
25 project goes into service so it eliminates the Quip

1 incentive and there may be situations where particular
2 incentives just aren't going to fit.

3 MR. KELLIHER: I mean, right now I don't think, I
4 can't think of the Commission ever denying Quip or
5 Abandonment. I can see it but if the Commission were to say
6 "everyone has Quip and Abandonment just kind of put it in
7 your 205 but you have to ask for further incentives". I
8 think that the risk is very low that it would be denied, but
9 it's even lower like it's zero and then in other cases it
10 seems the risks and challenges you'd have to demonstrate on
11 a project-specific basis.

12 It doesn't work very well right now on a
13 cost-contained project because the reaction of trial staff
14 might be "well, that's a risk you assumed, it's not a risk
15 associated with the project, it's a risk associated with
16 your bid, so we're going to discount that." We think it's a
17 risk that redounds to the benefit of the customer, but the
18 Commission is going to have to clarify that.

19 Then independence adder is something that the
20 company would have to demonstrate. That's one too where I
21 think there has only been one independence adder, ITC, but
22 when the Commission recognizes there's ranges of
23 independence and I'm thinking about that because there's
24 going to be different kinds of cost containment and that
25 will make it hard as was referenced yesterday if you have

1 three different cost-contained bids that are cost-contained
2 in different aspects, which one's better? That one will not
3 be easy to set.

4 COMMISSIONER LEFLEUR: Stu?

5 MR. NACHMIAS: I think a revised policy statement
6 that has maybe a category of incentives, either ROE
7 incentives or perhaps non-ROE type incentives that are
8 available to developers that are selected in a competitive
9 process recognizing that cost is an important component and
10 we do want to get that benefit for customers so that's one
11 of the factors that's been considered. So whether
12 there's some sort of performance ratemaking available or
13 some other adders and it would in essence be almost de
14 facto that maybe the developer has some flexibility in which
15 one it would propose but in order to make it you know less
16 of a showing of I have to demonstrate the risk which is
17 sometimes really hard to do of the project and instead say
18 because I was in this process and this is how I was selected
19 and this is what the ISO processes are, you know these are
20 the incentives that are available.

21 COMMISSIONER LEFLEUR: I was going to come onto
22 ROE incentives. I was only talking about the risk -- but
23 you're saying the more clarity you can have ahead of time --

24

25 MR. NACHMIAS: Clarity ahead of time I think is

1 going to be really helpful because ultimately that's what
2 investors, right, are looking for and recognizing the sweet
3 spot is a benefit to customers and how investors are going
4 to manage that risk.

5 COMMISSIONER LEFLEUR: Raja?

6 MR. SUNDARARAJAN: Given our position of capital
7 costs being the fundamental reason for evaluation as opposed
8 to cost of capital, another benefit of having quip and
9 abandonment is when if Quip was provided for the competitive
10 projects, both for incumbent and non-incumbent, then
11 omitting the RTO selecting because not the AFUDC element of
12 the project doesn't come into play and you are comparing two
13 different projects because the AFUDC now if you don't have
14 Quip the AFUDC and the rate base of the project which is
15 actually being charged to the customers includes the cost
16 of capital element in it.

17 So if the ideal way, if you want to compare to a
18 perfect apples-to-apples comparison would be in multiple
19 proposals and if you want to clearly isolate the cost of
20 capital element out then if Quip is provided for comparative
21 projects even then there is no need to provide what an AFUDC
22 calculation would be for different proposals and then go on
23 the path because even that becomes objective in our
24 response.

25 So there are multiple reasons why we would

1 actually support the Quip and Abandonment. Not only for not
2 only providing the clarity for developers who put in their
3 bids but also in our opinion it helps our pre-evaluation
4 process to take the AFUDC element out of the equation so
5 that it becomes a much more transparent process.

6 COMMISSIONER LEFLEUR: Peggy, you're paying for
7 this.

8 (Laughter)

9 MS. BERNARDY: Pardon.

10 COMMISSIONER LEFLEUR: You're on the customer's
11 side paying for this.

12 MS. BERNARDY: Yes, I'm paying for it. I think
13 in that respect we would certainly appreciate the
14 simplification of the rate proceedings that a generic,
15 well-known incentive would provide and we certainly
16 understand the need for certainty on the developer's side.
17 As the Department of Water Resources, we do a lot of
18 construction, we do a lot of projects so we understand from
19 not the private capital equity side of things but we
20 understand the difficulties of a project and the need for
21 certainty up front.

22 However, I think our view of any of these
23 incentives that were put into sort of a generic form would
24 depend on what it is, really. Certainly the Quip and
25 Abandonment Project as traditionally applied and regulatory

1 asset are you know, almost never heavily disputed in our
2 experience and pretty routinely granted and so they would be
3 candidates for a generic however I don't know that that
4 gives us that much further down the line of simplification
5 because they are already kind of in that box.

6 In terms of the substance of the incentive, we
7 would look at actual incentives that actually reduces risk
8 and we'd like to participate in that. We would, if it
9 doesn't reduce risk we would definitely be looking at it
10 from the perspective of "is this an incentive that merely
11 shifts risks to the consumer or is it an incentive that
12 tries to come up with a mechanism that somehow shares the
13 risk?"

14 And we've heard various things like that. I
15 think there's so many different variations of that kind of
16 risk-sharing, I think it would be hard to identify one up
17 front that would work for every situation but that's the
18 type of substance we would be looking for in that kind of
19 genre. Thank you.

20 COMMISSIONER LEFLEUR: Thank you. Well, turning
21 to the money incentives, you know ROE adders and
22 hypothetical capital structures just money, I mean it's just
23 another way to do it, as opposed to the accounting
24 incentives. So now turning to the money incentives, I
25 understand the, what would make somebody want to know up

1 front when they went in to give a bid, what they would be
2 getting in terms of rate treatment. I do understand that
3 chicken and egg problem I just think it's, I'm wondering if
4 we're leaving value on the table for customers if we don't
5 allow people to compete on how much risk they're willing to
6 take.

7 We heard from people yesterday who said when
8 including non-incumbents, we can do it without ROE adders.
9 And so if, I mean just backing up a minute, the premise of a
10 lot of Order No. 679 that I've struggled with really from
11 the time I got here is its basis on paying for risk because
12 it's incentivized people to file applications saying "my
13 project is so risky. I mean, it is the riskiest ever. I'm
14 choosing the most unproven technology and going the riskiest
15 route, this is risky, risky, risky." And I'm thinking why
16 are we you know asking people to show they're risky? Is
17 that what's best for customers?

18 I mean I do understand you get what you ask for.
19 So, I mean if somebody can come along in a competitive
20 process and accomplish the need in a less risky way or be
21 willing to put more of that risk on their investors for
22 whatever evaluative reason they have, isn't that better for
23 customers? Shouldn't how much risk you're willing to take
24 on and how you're willing to share it in an ideal world be
25 part of the comparison because that's another way that we

1 can deliver value to the customers? That's my question.

2 (Aside from the audience. Laughter)

3 COMMISSIONER LEFLEUR: I'll just go down the line
4 starting with Lawrence.

5 MR. WILLICK: Sure, well I think the you know
6 risk adders are specific to a project's risk and in the
7 planning process if you know, I guess in a bid model the
8 projects are even defined and it's as risky as it's been
9 defined by the RTO. In a sponsorship model, it might be the
10 case that the best project that has the overall least cost
11 is also a risky project. If you take that into
12 consideration the small ROE added for risk could be, you
13 know, more than offset by savings in the project itself.

14 COMMISSIONER LEFLEUR: So if I'm and I would say
15 in some of our orders the risk is not just project-specific
16 but company-specific. What the size is in proportion to the
17 customer's balance sheet and so forth. So if I'm PJM and
18 this is the sponsorship model, I'm looking at all these
19 projects, I have to somehow in my head say well, this one
20 might get a bigger incentive because it looks riskier but
21 this one wouldn't need an adder or do you think that there
22 should be some process to clear that up ahead of time?

23 MR. WILLICK: Right, I think it would be looking
24 at an estimate of the revenue requirement, taking into
25 account the ROE including.

1 COMMISSIONER LEFLEUR: So then that does allow
2 people to bid in what they are willing to take for risk?

3 MR. WILLICK: Yes.

4 COMMISSIONER LEFLEUR: Raja.

5 MR. SUNDARARAJAN: Yes, well maybe my comments
6 are pretty similar to what Lawrence is saying. In a
7 bid-based model, you clearly know what the project-specific
8 risk is. To that extent the Commission can provide clarity
9 on what the project-specific risk is that goes beyond the
10 non-ROE incentives. I think obviously AEP and Transource
11 would support that initiative. To address the
12 company-specific risk, I don't know how much that is true
13 anymore.

14 In terms of the company-specific risk given that
15 most of the entities are either affiliates of a larger
16 utility or the incumbents that are participating in this
17 process, company-specific risk was primarily the evaluator
18 for quip and abandonment and non-ROE incentives anyway. So
19 the ROE risk was predominantly being used for judging the
20 project-specific risk which in this case in a bid-based
21 model, you know up front.

22 In a sponsorship-based model, we believe that the
23 value of ideas far outweighs the incremental analysis of
24 what potential ROE adder that project would entail and I
25 think that's where the complication of up-front penalties

1 are much more difficult in a sponsorship model. At that
2 point I think the developer has to take a risk of not
3 getting incentives because in their opinion execution of
4 idea is, the evaluation of the idea itself is what's at
5 stake and let the RTO process be where it is. The developer
6 should take upon whatever risk of not getting the incentives
7 with respect to the ROE incentives. That's part of the
8 process and when you put in your bid, you should assume
9 whatever probability of getting the incentive as part of
10 your bid.

11 COMMISSIONER LEFLEUR: People have always taken
12 some risk because ROEs do change.

13 MR. SUNDARARAJAN: Exactly, yes.

14 MR. NACHMIUS: So I think if I thought about our
15 policy statement maybe that FERC issued that said that in a
16 competitive process there were some types of incentives or
17 performance incentives that were available that helped
18 balance the risk. I think Peggy said it best before between
19 what the customers and what developers are taking. I don't
20 think it has to be absolute in terms of how that works.

21 I think there could be tiered approaches for
22 example on a performance-based risk but we want to keep the
23 ISOs and RTOs out of that part, have them focus on the
24 capital cost and obviously the other attributes that are in
25 their tariff and then let that come to FERC and then just as

1 ROE is proposed I think that the availability of other
2 incentives can be proposed and then it can be adjudicated
3 through the FERC process with all of the relevant
4 stakeholders and then how it gets implemented and what the
5 incentive is and how it's tiered, that would be specific to
6 the particular case. At FERC all of the stakeholders can
7 have a role and they will be interrelated. So it could be
8 you know a good way under using sort of current process to
9 get there.

10 COMMISSIONER LEFLEUR: Thank you. I do
11 appreciate your idea of the PBR and the ROE. We went partly
12 that way on the policy statement by saying if you go over
13 budget you don't get your adder and after the Nesco case had
14 raised that but you are saying go the other way. If you are
15 under budget, you are proposing getting an extra adder.

16 MR. NACHMIAS: Yes. It's going a little further
17 than what the current statement would allow.

18 COMMISSIONER LEFLEUR: But I guess not to make it
19 harder but, so if there is a sponsorship model, the project
20 is chosen, then the company goes in and makes their proposal
21 to FERC whether it's for ROE adder or some kind of
22 performance-based ROE or whatever it is. And another
23 company that was almost chosen would have not needed that
24 adder or been willing to do it for a lower ROE. Are we
25 leaving money on the table?

1 MR. NACHMIAS: The question, I don't think so
2 because I think what you're doing is separating what the ISO
3 and RTO's responsibility is and what FERC's is and I think
4 ultimately you know it's hard to say, because you don't know
5 what you don't have. The same as you could exist today,
6 right, with incumbents. How do you know?

7 COMMISSIONER LEFLEUR: But the company goes into
8 PJM and says I won't ask for an ROE adder. I guess that
9 could be factored in, but I guess you --

10 MR. NACHMIAS: it could be, but you know,
11 forever? No, or they're never going to ask to change their
12 ROE? I mean there's so many different --

13 COMMISSIONER LEFLEUR: Well, that was going to be
14 my next question if I had time.

15 MR. NACHMIAS: Yes.

16 MR. KELLIHER: I agree with your frustration a
17 little bit about risk and how projects would come in because
18 two projects that are electrically equivalent, one is a
19 four-state project, one is a single-state project. The
20 first one is arguably riskier so should it get a higher ROE
21 than the 2nd one? Should it just be, even though the
22 benefits are the same the electrical effect is the same.
23 But ROE are money-adders. They are not always tied to risk,
24 right. I mean to me there's three rationales for some kind
25 of ROE adder.

1 The first one is it's the power to tax, it's the
2 power to destroy, the power to incent, the power to increase
3 investment. The classic case was Path 15 in California.
4 After the California crisis FERC encouraged, the
5 administration proposed a WAPA project or WAPA would build
6 out Path 15, private sector money built it. FERC
7 established a 13.5 percent ROE. Completely on policy
8 reasons. No attempt at saying that's what DCF produced and
9 the court robustly affirmed the Commission.

10 So there the Commissioners won and their
11 investment on that particular project in the wake of the
12 crisis, the courts have held it, no problem. The
13 Commission's base ROE, putting incentives aside and adders
14 aside, the Commission's base ROE on transmission was
15 generous enough where that was producing a lot of the
16 increase in investment. So just wanting more investment,
17 that historically has been a reason to set adders or
18 relative high ROE. The risk is part of it and are those
19 risks the ones imposed from the outside or the risk is one
20 that a company assumes in putting in a cost-contained
21 proposal where the customer benefits from cost containment.
22 How should that be factored into the mix?

23 The third is just a policy rationale, right. the
24 independence adder are completely policy rationale; RTE
25 membership, completely policy rationale; nothing to do with

1 risk. I think the notion of some of the ideas that I've
2 laid out relate to either crediting risk or recognizing
3 policy benefits of competition and cost containment.

4 COMMISSIONER LEFLEUR: I thought the independence
5 adder was initially premised on it was riskier to be an
6 independent but still I --

7 MR. KELLIHER: I think it was more to reduce the
8 risk of vertical power market exercise by sending
9 transmission out.

10 COMMISSIONER LEFLEUR: Paul?

11 MR. DUMAIS: I think that Agenda Item Number RTO
12 solicitations they need to solicit the full attributes of
13 the project including what the developers are looking for
14 for ROE incentives, the whole gamut and make their selection
15 according to their matrix of criteria and then they select
16 and then the developer has the responsibility of coming
17 before FERC and trying to get that. If for some reason FERC
18 disagrees then you know that developer then likely has
19 opt-out, some sort of an opt-out to say well, you know I
20 didn't get the ROE or I didn't get the incentives that I
21 want so I have a decision am I going forward or am I not
22 going forward.

23 If they don't go forward, then the RTO has the
24 second project that they can then -- you know, I know
25 there's a time issue here but I just think that the RTO

1 needs a full evaluation.

2 COMMISSIONER LEFLEUR: Thank you. George?

3 MR. DAWE: Thank you. I've a little bit
4 different twist to it I guess. So I'm paying up from to
5 reduce the project risk. I can get comfortable with that.
6 I can identify those with those and get comfortable with it
7 and decide if you know, what incentives I need, cost
8 containment, things like that.

9 My biggest exposure, risk exposure in my opinion
10 is the evaluation risk. I have no idea what the RTO is
11 going to do. General framework for how they plan to
12 evaluate my project after I've spent x amount of dollars but
13 no real idea because they are not being very specific. We
14 need that kind of clarity to keep developers engaged. If
15 you keep the developers engaged you will have more
16 competition and more competition you won't have much money
17 left on the table.

18 COMMISSIONER LEFLEUR: That's very helpful.
19 That's process clarity. You're not saying FERC should give
20 money ahead of when you win the project?

21 MR. DAWE: No. Process clarity is what I was
22 trying to point out.

23 COMMISSIONER LEFLEUR: Thank you. Peggy?

24 MS. BERNARDY: Yes, going to the original
25 question. Are we leaving money on the table if incentives

1 are not added? I have to say, I have no idea. And when I
2 think about how I would get an idea on that question, I
3 can't access the documents and so my way of looking at you
4 know, are we leaving money on the table would be to look at
5 all the bids that were submitted on a particular project,
6 send it off to the engineers to give a look-see at it and
7 give it a thought. That wouldn't be the final answer but
8 that would give me some idea. I would like to have the
9 ability to see those bids.

10 Just one small point on Path No. 15, I think we
11 all recognize that was unusual circumstances not to be
12 replicated and not to be used as a precedent. Thank you.

13 MR. KELLIHER: I wasn't saying 13 percent
14 should be the standard initial ROE.

15 (Laughter)

16 COMMISSIONER LEFLEUR: Thank you for that
17 clarification. Raja?

18 MR. SUNDARARAJAN: We do have a concern about all
19 this being made public. I know Peggy was talking about as
20 part of transparency. I think transparencies of the RTO I
21 think they are fully open to sharing all of the information
22 to RTOs. The fact that most of these bids have significant
23 confidential information because of negotiated vendor
24 contracts. In terms of materials and pricing of materials,
25 pricing of equipment, if those do become public that becomes

1 a significant issue for us.

2 On the other hand, we are open to some kind of a
3 confidential information sharing process, same thing we have
4 with PJM RPM program where state regulators and regulators
5 have access to information. State regulators and federal
6 regulators have access to confidential information so they
7 had the transparency that was needed as opposed to
8 everything made public.

9 COMMISSIONER LEFLEUR: Stu?

10 MR. NACHMIAS: Just quick. Paul said the
11 developer should propose its ROE and other attributes in the
12 ISO process. I'm not sure how that would work frankly
13 because I think a developer would propose what it would
14 request but the ISOs are not going to run a process like
15 FERC with all of its stakeholders coming in and the
16 adjudication of an economic regulators. I'm not sure how
17 the ISOs even value that in their process.

18 COMMISSIONER LEFLEUR: But it could be an upper
19 half of the developer said I want a request above this.
20 Peggy?

21 MS. BERNARDY: Just to clarify. Of course we
22 understand the need for confidentiality. We sign
23 nondisclosure agreements and abide by them. We would expect
24 some kind of process like that.

25 Just real quickly. All I'm saying is that I

1 think developers can be very creative when it comes to
2 ratemaking and risk reduction and cost containment and all
3 those things and if you wait for that after the process is
4 created you lose that creativity at the front end.

5 COMMISSIONER LEFLEUR: Thank you. I'm going to
6 indulge in one more question because I've had it since the
7 last Panel. One type of incentive that we have asked for
8 once is an incentive to give greater certainty, like either
9 Mobile Sierra protection for a certain rate where it has a
10 higher burden to overcome to change that ROE or rebuttable
11 presumption going in to the process that something was just
12 and reasonable.

13 No one on this panel, which is the incentives
14 panel has argued for that, but in the sort of speak now or
15 forever hold your peace model. Is that something you think
16 should be on the table? It was something we got in the
17 pre-filed comments as a proposal. Lawrence?

18 MR. WILLICK: I think a rebuttable presumption
19 does have some attractiveness and I think there are
20 standards and precedent for that approach. I think the
21 problem with it for competitive transmission or at least the
22 processes as they are now is that not necessarily the lowest
23 cost, least risk, most certain from a cost-perspective for
24 ratepayers, the proposal is what's selected. For example,
25 in MISO and SPP the way the point system is you know the SPP

1 project selected didn't have any risk mitigation or cap and
2 so I don't know that that proposal then would have a
3 rebuttable presumption because it came out of that process.

4 COMMISSIONER LEFLEUR: Thank you. Raja? Let's
5 go down and then I'll give my time to Norman and shut up.
6 Let's go down with these cards that are up.

7 MR. SUNDARARAJAN: From the AEP's point of view,
8 we fundamentally view these as still traditional regulated
9 transmission projects with voluntary bids being submitted in
10 order for a chance to win these projects. We believe that
11 any change in the construct of Mobile Sierra or rebuttable
12 presumption would fundamentally alter the risk allocation
13 between the developers and the regulators in this case and
14 we are opposed to that concept.

15 COMMISSIONER LEFLEUR: Thank you. Joe?

16 MR. KELLIHER: I mean, we'd be conformable with
17 a rebuttable presumption than with an ROE in a cost
18 contained bid is reasonable. We haven't, I wouldn't throw
19 out Mobile-Sierra because it's different dynamic than a
20 bilateral contract so I would not say it should have that
21 kind of Mobile Sierra level of deference.

22 COMMISSIONER LEFLEUR: Thank you. Peggy?

23 MS. BERNARDY: Yes, there's a lot to say about
24 these various proposals but I think the bottom line is our
25 position would be that these kinds of proposals would be

1 inconsistent with the federal power act and the Commission's
2 duty is to conduct a just and reasonable review.

3 COMMISSIONER LEFLEUR: Okay. Thank you very
4 much.

5 CHAIRMAN BAY: Thank you, Cheryl. I want to
6 thank our panelists for a really lively discussion, a very
7 thoughtful discussion, one with views really spanning the
8 spectrum. My question really is one that I think has been
9 raised by all of my colleagues in one form or another and
10 that is what advice do you have for the Commission in terms
11 of how we hit the proverbial sweet spot. Stuart mentioned
12 that and I think Peggy did as well.

13 Assuming that we want to promote the development
14 of transmission, we certainly recognize the value of
15 infrastructure and we recognize the importance of regulatory
16 certainty, the way which incentives can help promote the
17 development of infrastructure but we also want to ensure
18 that at the end of the day rates remain just and reasonable.

19
20 So while competition clearly can be helpful in
21 driving innovation and efficiency in cost containment, it
22 sounds like it can be very helpful, I've heard at least over
23 the last day and a half some caveats. For example that cost
24 containment measures can have lots of exemptions, they can
25 have as Stuart put it "off-ramps", that there can be this

1 request for favorable rate treatment including some sort of
2 presumption as to what the ROE should be and that there
3 could be other incentives that should be considered or even
4 granted in advance by the Commission.

5 So how do we know at the end of the day were we
6 to accept all of that that the transmission is being built
7 in a way that reflects a just and reasonable approach? What
8 advice do you have for the Commission in terms of how we
9 should consider these proposals to hit that regulatory sweet
10 spot? Joe?

11 (Laughter)

12 MR. KELIHER: I mean, that's a great question.
13 Part of the difficulty is cost containment can take many
14 different forms. Right, so you look at the extreme case,
15 not the extreme, but the pure case where someone has bid in
16 all their capital costs and it's absolutely fixed and there
17 is no off-ramps and they have essentially said and they also
18 have a negotiated ROE. We're essentially saying "I will
19 build this project for X and I'll eat everything above X if
20 I get this ROE. Part of taking the ROE out and lowering it
21 seems an unfair outcome but you'll have many other versions
22 where some of the costs are stated and there are off-ramps.

23 Should the Commission put out its preferred and
24 exclusive form of cost containment? Should it let a
25 thousand flowers bloom in how cost containment arises? I'm

1 not sure that the Commission is at a point and in a position
2 where it could say "this is the one form of cost containment
3 that will result in just and reasonable rates and effective
4 competition." So it seems like you're more necessarily in a
5 let a thousand flowers bloom mode towards the regions.

6 Now, what kind of direction can you provide the
7 regions? Are you in a position where you can say "we don't
8 like this" at least some negative direction. I'm not sure
9 there's been enough proposals that you've dealt with where
10 you can say that. In terms of you either have to accept,
11 you're going to have to start ruling on some of these
12 proposals as they come in and the difficulty will be how do
13 you decide after the fact whether the policy's working and
14 those were the correct calls or not?

15 I would think one measure would be if competitive
16 transmission withers on the vine, then maybe your policies
17 were not the best but at that point it might be difficult to
18 unwind the effects of your decisions. I mean I would think
19 the reverse is sort of true. If competitive transmission in
20 new entry is vibrant, if kind of what we're seeing in
21 California ISOs spreads to multiple regions, I think with
22 cost containment. I thought cost containment would arise
23 with Order One Thousand. I didn't realize it would arrive
24 so quickly, at least in Cal ISO.

25 If I were with the Commission I would say I want

1 what's happening in CAL ISO to happen in more regions and I
2 also would probably want if you look at regional
3 transmission plans and you look at what's the sliver that's
4 available for competition? In some regions it's a pretty
5 small sliver. I'd want that piece of the pie to be probably
6 larger than it is now. There is things the Commission can
7 do to increase that slice of the pie.

8 I would want competitive transmission, I would
9 realize it's going to push costs down. I would probably be
10 discretionary toward the regions because I don't think
11 you're in the position to say "this is formula X on cost
12 containment" and I want the slice of pie available for
13 competition to get larger and then watch if people stop
14 bidding. If you're left with the incumbents then Order One
15 Thousand will have failed.

16 CHAIRMAN BAY: I have to pause every time I hear
17 the phrase "let a thousand flowers bloom" in the context of
18 a FERC-related discussion. It's a phrase that's used fairly
19 often here, but of course if you're a student of history you
20 know that period in Chinese history is followed by the
21 cultural revolution,

22 (Laughter)

23 Which was not so helpful to the thousand flowers
24 that had blossomed. So anyway, Peggy.

25 MS. BERNARDY: When you talk about a thousand

1 flowers, somehow the phrase that's been going through my
2 mind thinking about this topic has been death by a thousand
3 cuts because there were so many charges and incentives that
4 you know, which is the incentive and which is the incentive
5 and which is the rate that we should really be focused on
6 and there are just so many of them. Each of them is just a
7 little bit more than we want to spend and so that's one of
8 the problems.

9 How to hit the sweet spot? I would say start by
10 do no harm as we heard yesterday I think that Commission
11 should resist the urge to standardize as that might be
12 calcified and set in stone for perpetuity. That is a risk
13 to us. I am confident that the Commission has the
14 ratepayer's interest at heart. I just note that on panel
15 today there is one ratepayer speaker and I think often you
16 do hear a lot from ratepayers. I mean you don't hear as
17 much from the ratepayers as from the developers and keep
18 that in mind as you're considering what you should be doing.

19

20 We are satisfied that the ISO competitive process
21 is probably working quite well now as best as it can. We
22 would like to see more transparency at the ISO level as well
23 as in the settlement process effort. Thank you so much.

24 CHAIRMAN BAY: Thank you, Peggy. Paul?

25 MR. DUMAIS: I would think that the Commission

1 could do two things that would be helpful. One is to make
2 it clear in the process where FERC comes in. because you
3 know, like PJM said we think FERC should come in before the
4 solicitation is done. You know, I've been saying it should
5 be after, like sort of happens today but I think that's one
6 area that you can lend clarity to the process.

7 The other is, amending the 2012 policy statement
8 to bring Order One Thousand into it and the kinds of
9 considerations that the Commission would have with risk
10 producing and ROE incentives in light of Order One Thousand.

11

12 CHAIRMAN BAY: Thank you. Stuart?

13 MR. NACHMIAS: So I think it's important to get
14 ahead of the issues way before the flowers or leaves die on
15 the vine. Yes, as Joe said earlier, cost containment
16 provisions came up really as a way for developers to
17 differentiate in the competitive process. So I think it's
18 important for there to be flexibility but for the
19 Commission to say that there's a framework.

20 I think it was Craig yesterday who said planning,
21 the L in planning is for litigation. I think we want to try
22 to avoid unnecessary litigation because that's going to
23 bring risks to developers in terms of what is recoverable,
24 what is not recoverable even in a cost-containment bid and
25 that is not going to be good.

1 Maybe a policy objective of shared risks that is
2 not all on the customers, that developers are taking no some
3 risks and the way to achieve that, whether it's cost
4 containment over clarity over what's included or not
5 included, or whether there's an option you know in what at
6 least what we have been suggesting, some sort of performance
7 incentive where maybe you don't worry about that as much but
8 you just basically give some sort of incentive or
9 disincentive to manage the cost.

10 That happens at FERC but then maybe you don't
11 have to worry about so much litigation over what's in and
12 what's out. Because I think that's really where the
13 rubber's going to hit the road. I think what FERC's
14 objective should be is shared risk and not too much risk, so
15 much risk on the developer that the one overrun that's 50
16 percent of the cost that has to be absorbed, that developer
17 is just going to go bankrupt and then investors from that
18 point forward are going to hesitate. So I think that
19 balance has to be reached and trying to get ahead of it will
20 be really important.

21 CHAIRMAN BAY: Raja.

22 MR. SUNDARARAJAN: Yes, I think from AEP's point
23 of view, I think we believe to the extent the Commission
24 can provide up front clarity and the non-ROE incentives
25 would go a long way in terms of the crafting of bids. With

1 respect to the issue of cost containment and the interplay
2 between incentives and ROE we fundamentally believe that you
3 can only proceed on the path once you get more evidence
4 because right now we have no evidence of how much cost
5 containment is actually part of the evaluation process.

6 In the case of a sponsorship model it might be.
7 It might be a very small role in certain cases. In certain
8 cases when you have multiple sponsors bidding on very
9 similar ideas, then cost containment becomes a predominant
10 role. Even in California in certain cases where we have
11 substation projects. We have a clear defining scope, we
12 have cost in our bidding, developers are bidding cost, with
13 limited hours. That I think it's in our opinion it's a
14 project-specific issue which are not, in our opinion cannot
15 be translated to other generic rule-making or policy-making
16 in our opinion.

17 We strongly believe yes there is role for
18 interplay between cost-containment and ROE, it's just that
19 it's not, I don't think that you have enough evidence so
20 that it can actually be imposed on every project, in every
21 process and through all the United States. To that extent,
22 each developer can provide the evidence that this is exactly
23 what they went through in the Commission.

24 CHAIRMAN BAY: Thank you, Raja. Lawrence.

25 MR. WILLICK: Sure, I think the sweet spot could

1 change over time and I think really the question is whether
2 the balance between having competitive pressure on the one
3 hand, trying to lower costs and for rate-bearers and risks
4 for rate-bearers and on the other hand the need for
5 developers to have a risk premium to account for that risk.

6 So I think today that sweet spot is a cap. There
7 is traditional costs and service regulation, then there's a
8 cost of service regulation with a cap and there's no risk
9 premium with a cap because there's an estimate, there's some
10 contingency with a capped amount but to the extent the costs
11 come in lower than the cap, it's the actual cost and then to
12 the extent it's higher than the cap, then it's the cap so
13 there's clear benefits to rate-bearers for overrun
14 protection.

15 There's clear benefits in the planning process
16 because the planners know well this project I'm looking at
17 is not going to cost more than this amount. But then if you
18 kind of take it another step and say well, there should be
19 an ROE adder for having that additional risk or having being
20 an ROE at the high end of the range, well then maybe you
21 kind of left the sweet spot because now there's a risk
22 premium that you're not necessarily sure is commiserate with
23 the higher level of risk.

24 Then, kind of going another step to some sort of
25 shared savings that are performance-based rates, the

1 question then comes back to well, where is that level set?
2 It is set too high, or high enough that in the base case
3 there's kind of an additional earning that might not be just
4 and reasonable. Then even another step to a fixed revenue
5 requirement. Now the fixed revenue requirement includes an
6 implied return on equity and capital structure and a cost
7 for debt that's going to be raised you know several years
8 out from the date of the bid and O&M, well then there's a
9 lot of risk premiums in that fixed revenue requirement.

10 It's difficult to say that that's going to be
11 just and reasonable especially in a process where cost isn't
12 the primary evaluation factor.

13 CHAIRMAN BAY: Joe?

14 MR. KELLIHER: Just a short comment reacting, as
15 Stuart mentioned litigation and that's one way the
16 Commission will develop its conviction, its policy on how to
17 address competition and the Commission has been very
18 deferential to the regions on Order One Thousand, taking
19 some different approaches, but for example if at some point
20 the Commission just in litigation will say "yes, you know,
21 we like this" and if "this" doesn't exist in three regions
22 the Commission should adopt that policy in those three
23 regions.

24 One example would be should cost be a primary
25 factor. How much weight should cost have and it seems in a

1 competitive dynamic cost should have a pretty high rate or
2 arguably be the primary factor. If the Commission ends up
3 deciding that, not every region does that, the policy of the
4 Commission will develop but then it, I think should in turn
5 require that regions conform to its policy once it decides
6 what it likes and what it wants, what it thinks works.

7 CHAIRMAN BAY: George.

8 MR. DAWE: Thanks. I just wanted to say, I agree
9 with Lawrence. The sweet spot will change over time so I
10 mean the message would be don't do anything to discourage
11 the participation of developers. I mean, you, up until this
12 point, you haven't had the innovative ideas or the struggles
13 with cost containment in how low can you go. These are good
14 problems for consumers. So to the extent you can provide
15 the clarity that's necessary in the process for developers
16 to get comfortable, stay comfortable. You'll have the
17 competition that I think you want and consumers certainly
18 benefit from.

19 CHAIRMAN BAY: So this will be may last question
20 and it's open-ended and that is whether you have any final
21 words of advice for the Commission and if you could
22 summarize, if you wanted to leave us with a single, kind of
23 key takeaway point, what would it be. I think I know what
24 Peggy and George said based up on your remarks in the last
25 go round but certainly you can feel free to either reiterate

1 it or to tell us something else.

2 MS. BERNARDY: I'll just keep it short. I think
3 we really appreciate the Commission's attention to
4 cost-effectiveness.

5 MR. DAWE: I'll be equally short. More
6 independence in the evaluation process would be an
7 incredible help to the industry.

8 MR. DUMAIS: I think providing principles and
9 guidance is the way to go as opposed to a real prescribed
10 way because I think what I've seen and what I'm hearing my
11 colleagues say too is that there's a lot of creativity and
12 innovation out there with projects but then also with cost
13 containment and ratemaking and returns and all the other
14 elements too. Thank you.

15 SPEAKER: I think the Commission should recognize
16 the disconnect between its policy of supporting competition
17 and promoting competition and its current rate policies and
18 it should act in some manner to remove the disconnect.

19 MR. NACHMIAS: I think what I would add is that
20 in addition to all the other issues you've heard, that the
21 Commission should consider in its policy a performance based
22 incentive that would encourage the management of projects to
23 the costs that are proposed and competitive solicitation
24 processes.

25 MR. SUNDARARAJAN: From our point of view,

1 certainly affirmed clarity of non-ROE incentives would go a
2 long way. Secondly, additional clarity in terms of RTOs
3 evaluating projects primarily capital costs as opposed to
4 cost of capital would also go a long way because I think
5 these are right now in absence of clarity, developers
6 proposed various ideas and RTO is confused in terms of how
7 to look at it. So to that extent, the Commission can guide
8 these elements of the RTO.

9 I think the transparency should automatically
10 with this because the more transparency you can provide the
11 RTO in terms of evaluation, RTOs will take that and
12 implement them in terms of their evaluation process. right
13 now, the confusion lies in both of these aspects because
14 right now the RTO is looking for your guidance and I think
15 you're looking at RTO to provide the guidance so to that
16 extent you can provide guidance to the RTOs. In our option
17 that goes a long way.

18 MR. WILLICK: I think a focus on cost in the
19 planning process is you know, part of what drove Order One
20 Thousand and a continued focus on cost can help ensure both
21 the best outcome for ratepayers but also allow the market to
22 move towards having more cost-certain and risk mitigated
23 proposals.

24 CHAIRMAN BAY: Well, I'd like to thank all of our
25 panelists for just a really thought-provoking discussion.

1 We very much appreciate all of the suggestions you've shared
2 with us. At this point we will break until, we'll take an
3 early lunch. I think we can reconvene at 12:15? Is that
4 right? alright, thank you everyone. We will see you at
5 12:15 for Panel No. 4.

6 Break 10:59 a.m.

7 12:20 p.m.

8 CHAIRMAN BAY: Well, good morning everyone.

9 Let's go ahead and get started. This will be our fourth
10 panel which will focus on interregional transmission
11 coordination issues. I want to thank all of our panelists
12 for being here today and we very much look forward to
13 hearing your comments on interregional transmission
14 coordination. So without further adieu let's go ahead and
15 get started with John from NISO.

16 MR. BUECHLER: Thank you Mr. Chairman and
17 Commissioners and thank you for the opportunity of being
18 here today to talk about interregional planning issues. My
19 name is John Buechler. I'm the NISO's Executive Regulatory
20 Policy Advisor and I have had primary responsibility for all
21 of the major NISO planning processes that have been
22 developed and filed with the Commission including Orders
23 No. 890 and Order No. 1000. I'll be focusing my comments
24 on the coordination of interregional planning with our U.S.
25 Neighbors in the Northeast, PJM and ISO New England. We've

1 been coordinating our planning efforts with them since the
2 NISO inception and in 2004 we actually entered into a formal
3 protocol to govern that coordination process of the
4 Northeast RTO planning coordination protocol which I will
5 give credit was based upon a similar agreement between PJM
6 and MISO in this formation.

7 Existing protocol meets all of the requirements
8 of Order No. 1000 and in fact succeeds those in several
9 notable ways. First of all in providing for a multilateral
10 interregional planning coordination effort for having a
11 joint interregional planning committee comprised of the
12 three ISO regions, having a dedicated stakeholder advisory
13 process and having the results of the activities that are
14 documented in a periodic report typically every two years
15 called the Northeast Coordinator System Plan. Finally when
16 providing for coordination interconnection to requests as
17 well as transmission service requests and may have impacts
18 among the three regions.

19 Since we're kind of switching topics here from
20 the previous panels over the past couple of days, I thought
21 it might be helpful to remind everyone of the key
22 requirements of Order No. 1000 with regard to interregional
23 planning. The first of which is at the foundation of the
24 regional planning process lies with the regional planning
25 processes of the respective regions. In that a potential

1 regional project must be first proposed by the developer
2 into the regional planning processes of the respective
3 regions, at that point a joint interregional analysis
4 process kicks off among the regions involved and finally in
5 order for an interregional project to be eligible for its
6 original cost allocation it must be selected in the
7 transmission plans of the respective regions. That's the
8 framework.

9 We believe that this explicit linkage between the
10 regional transmission planning processes and the
11 interregional coordination process provides for a
12 coordinated and joint and coordinated information and
13 transparency and analysis to a lot of stakeholders in those
14 respective regions to make a determination as to whether an
15 interregional project could be or might be more cost
16 efficient or effective than regional solutions.

17 This, in answer to one of the questions, we
18 believe this process should facilitate rather than delay the
19 potential selection of interregional transmission project.
20 Simply put, without at least two willing parties, it's
21 unlikely that an interregional project will proceed. In
22 addition, NISO believes that this process and structure laid
23 out in Order No. 1000 is appropriate and furthermore
24 consistent with Order No. 1000 interregional cost
25 allocation principles which provide that there should be no

1 involuntary allocation of costs to a region which does not
2 receive any benefits and does not choose to accept those
3 costs.

4 I'll get to the implementation status within the
5 Northeast. The ISOs and RTOs proposed, proposed as to a
6 stakeholder process that the protocol would be used as a
7 central point for its compliance filing for Order No. 1000
8 and the protocol was in fact amended to provide for the
9 regional and interregional linkage I just mentioned and also
10 to provide for an ex ante interregional cost allocation
11 methodology. Following extensive stakeholder policy which
12 involved both our regional stakeholder groups as well as the
13 interregional committee existing already under the protocol,
14 we filed our concurrent compliance filings, the three ISOs
15 that is, in July of 2013 and received a final compliance
16 order from the Commission November of 2015.

17 MR. TOBENKIN: Please try to conclude your
18 remarks.

19 MR. BUECHLER: Okay. In the Northeast
20 Coordinated System Plan that was issued just several months
21 ago, that plan focused on the implementation efforts that
22 were made during 2014 and 2015 to implement the requirements
23 or Order No. 1000 as well as other key issues of
24 interregional planning among the Northeast ISOs and RTOs.
25 In summary, the NISO supports the Commission's goals on

1 Order No. 1000 to incent the development of transmission by
2 implementation of the competitive process to stimulate as
3 we've heard before, innovative solutions that provide
4 benefits to consumers.

5 Transmission is needed in New York to replace
6 aging infrastructure and facilitate Federal and State policy
7 initiatives to deliver the benefits of cleaner, renewable
8 resources, among other policies to all parts of New York
9 State and the region. So thank you, I look forward to
10 participating in discussions.

11 MS. CURRAN: Good afternoon. I'm Jennifer
12 Curran. I'm MISO's Vice President of System Planning and
13 Seams Coordination. I appreciate the opportunity to be here
14 today to talk about interregional planning issues.
15 Identifying and building appropriate transmission is more
16 important than ever given the changing resource mix to
17 ensure system reliability, efficiency and overall
18 flexibility. Improved interregional planning is a critical
19 component of maximizing the value of the transmission system
20 for the benefit of driving savings for customers.

21 The Order No. 1000 process provide a good
22 compliment and expansion to the routine coordination that
23 happens already between neighboring utilities and regions,
24 such as the coordination which enabled MISO and PJM to
25 identify the Duff Coleman Project somewhat recently, which

1 while not an Order No. 1000 cost-allocated project, was a
2 coordinated project that we were able to approve to jointly
3 meet our perspective system needs.

4 Although a great deal of progress has been made
5 under Order No. 1000, more time is needed to realize the
6 true potential of interregional planning. In part, this is
7 due to the required evolutionary processes that are needed
8 to align practices among regions that had had historically
9 different approaches to transmission planning, transmission
10 operations and transmission cost allocation.

11 Among other things, trying to reconcile these
12 differences has most often led us to focus on our existing
13 common ground and short-term needs. Most often this leads
14 to discussions of projects that are already identified in
15 the regional plans and are expected to pursue in the
16 regional plans irrespective of interregional action. In
17 order to see the value from interregional transmission
18 investment, we believe regions will need to embark on some
19 longer term looks, starting with joint assessment of
20 interregional needs, which is likely to be a multiyear
21 process from identification of the need to the transmission
22 solution of the approval.

23 Focusing on these longer-ranged needs offers the
24 opportunity to drive value for customers by identifying
25 projects that would not have otherwise have been identified

1 absent coordinated interregional planning. This is an
2 approach we're currently exploring with SPP which is not to
3 say there should be no focus on short-term needs. Our
4 experience with PJJM has shown us that there are some gaps
5 between our regional tariffs that reflect regional
6 operational scenarios across the seam. New standalone
7 interregional planning and cost allocation protocols such as
8 the targeted market efficiency project we're working on now
9 can help fill those gaps with appropriate transmission
10 solutions. In the end, we want to ensure that MMISO, our
11 neighbors and our collective stakeholders have the bulk of
12 our resources dedicated to interregional planning, focused
13 on the identification of the new and more efficient
14 transmission solutions.

15 To that end, while we do not see the need for
16 Commission action at this time, we would ensure the
17 continued monitoring of the processes to ensure the
18 interregional focus is on improving upon our interregional
19 plans for the identification of valuable infrastructure.
20 Finally, in order for customers to capture the benefits
21 identified in the robust interregional process, the
22 operations of the seam must also ensure efficient operations
23 and remove barriers to more efficient transactions along the
24 seam.

25 We hope the Commission will continue to encourage

1 developing of operating best practices to allow for more
2 efficient use of transmission infrastructure and generation
3 resources. Thank you.

4 MR. DESHAZO: Good afternoon Mr. Chairman and
5 Commissioners. My name is Gary DeShazo and on behalf of the
6 California ISO I want to thank the Commission for the
7 opportunity to participate in this technical conference on
8 Competitive Transmission Development. The continuing growth
9 of renewables in the West is actually informing regional or
10 interregional transmission planning. This has created a
11 valuable opportunity for the California ISO to utilize Order
12 No. 1000's framework to coordinate with the other Western
13 planning regions and to consider what benefits in a regional
14 coordination or interregional transmission may bring to our
15 respective regions.

16 Four interregional transmission projects have
17 been submitted to the California ISO and three of those were
18 submitted to NTTG and WestConnect. Through Order No. 1000
19 protocols, these planning regions have coordinated
20 preparation of evaluation process plans for each of the
21 submitted projects to ensure the planning regions achieved
22 consistent planning assumptions and technical data within
23 our own regional processes. The California ISO intends to
24 study these interregional transmission projects in the
25 context of our 50 percent renewable portfolio standard

1 special studies in our 2016 and 2017 transmission planning
2 process.

3 This will provide an opportunity for the ISO, NTG
4 and WestConnect to coordinate interregional studies during
5 this interregional coordination cycle. The Western planning
6 regions are about to complete the first quarter of our
7 2016/2017 interregional planning cycle. our decision to
8 file a joint tariff was the right approach for us. Pairing
9 would have necessarily dictated separate tariff arrangements
10 between the pairs of planning regions which could have
11 created possible conflicts between the planning region
12 pairs.

13 The California ISO acknowledges that Order No.
14 1000 was intended to lead the identification and
15 construction of better transmission projects, to meet
16 reliability, economic and public policy needs. It has been
17 suggested that further improvement or reforms are needed to
18 address certain concerns that have arisen since Order No.
19 1000 was finalized. The California ISO suggests that we're
20 far too early in the interregional coordination process to
21 determine whether immediate action by the Commission to
22 improve on the order that we now have in place is needed or
23 not.

24 The Western planning regions are now dealing with
25 their first interregional planning project proposals and

1 more importantly are becoming more familiar working with
2 each other such that changes to the process before it
3 actually has an opportunity to mature, would likely derail
4 our ongoing efforts of implementing interregional
5 coordination in the West. The Commission should wait until
6 the current coordination cycle and possibly the next is
7 complete before considering any modifications to the
8 process.

9 So in closing, the ISO supports Order No. 1000
10 and we look forward to a continued working relationship with
11 the other Western planning regions to see a successful
12 interregional coordination process established. This
13 concludes my remarks and thank you very much for the
14 opportunity to participate.

15 MR. GALBRAITH: Chairman Bay, Commissioners and
16 Staff thank you for inviting me to participate in today's
17 technical conference. My name is Maury Gallbraith. I'm the
18 executive Director of the Western Interstate Energy Board an
19 organization of eleven Western States and three Canadian
20 Provinces. My remarks this afternoon are going to be
21 focused on the identification and assessment of the need for
22 regional and interregional transmission facilities in the
23 West.

24 I have two short takeaway messages for you today.
25 The first is that the long staple approach to regional

1 transmission planning used by several of the planning
2 regions in the West is insufficient to establish the need
3 for regional transmission projects in the West.

4 The second takeaway is that the arm's length
5 approach to interregional coordination used by all of the
6 planning regions in the West is insufficient to establish
7 the need for interregional transmission projects in the
8 West. Let me first turn to the long staple approach to
9 regional transmission planning.

10 The first step used by multiple planning regions
11 in the West to construct a regional transmission plan is to
12 gather and combine the generation and transmission projects
13 included in each of their funders' local transmission or
14 integrated resource plans. The data, enabling assumptions
15 and scenarios that supported these projects at the local
16 level, however, may lack consistency and coherence when
17 viewed from the regional perspective.

18 For example, regional economics may not support
19 each local utility constructing generation and selling
20 excess power into the wholesale power market without a
21 significant price response or without energy curtailment.
22 The need for regional transmission facilities cannot be
23 established solely on local utility integrated resource
24 plans. It must be established on the basis of robust,
25 independent and transparent analysis at the regional level.

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Let me now turn to the arm's length approach to interregional coordination. A similar problem exists when the planning regions rely on regional transmission plans to assess the need for interregional transmission projects. The data enabling assumptions and scenarios used at the regional level may lack consistency and coherence when viewed from an interregional or an interconnection-wide perspective.

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For example, one region may proposed that an interregional transmission project is beneficial because it will relieve congestion on a historically constrained path. The other region however may conclude that the same project is not needed or beneficial because significant deployment of distributed energy resources within the region will obviate the need to relieve the congestion. Robust, independent, transparent analysis at the interregional, interconnection-wide level is needed to reconcile and resolve these types of differences.

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The interregional coordination procedure used by all the planning regions in the West is not equivalent to interregional or interconnection-wide planning and should not be considered an adequate substitute. The coordination is arm's length and does not provide a transparent record or source of information or analysis that state policymakers

1 and regulators can use to evaluate the need for
2 interregional transmission facilities.

3 Commissioners and fellow Panelists, thank you
4 again for this opportunity to speak at today's conference.
5 I look forward to our continued dialect. Thank you much.

6 MR. GAW: Good afternoon. My name's Steve Gaw.
7 I'm here on behalf of the Wind Coalition and AWIA, I consult
8 with both. I primarily work in the Southwest Power Pool and
9 in regional and intraregional work on transmission which is
10 one of my areas that I deal with.

11 I want to thank you first of all for allowing me
12 to speak today and express my appreciation to this
13 Commission for its leadership on transmission issues and the
14 fact that you are willing to hold this technical conference
15 at this point. We are in the midst of dramatic change in
16 the way that we generate and consume electricity I this
17 country. For the last several years new generation have
18 been made up primarily of new gas and new renewables
19 replacing older fossil fuel units that are being retired.

20 The Clean Power Plan may be in litigation but
21 change is occurring regardless of the outcome. The
22 Commission deserves to be complimented for its vision in
23 adopting Order No. 1000, tackling the barriers to the
24 construction of transmission infrastructure. It is now
25 clear that Order No. 1000 was a step forward but that in

1 order to address the needs of this new era more must be
2 done.

3 Considering the time it takes to plan and
4 construct transmission, it is important to act soon if
5 adequate tools are to be available for us to
6 cost-effectively meet this new era for the benefit of
7 consumers. The Order No. 1000 in the regional provisions
8 are not producing the transmission that was envisioned by
9 the order. Contrast this with the fact that several studies
10 over the last few years show that a backbone and delivery
11 high-voltage system that integrates significant renewable
12 generation is the most cost-effective way to transition to a
13 low-carbon future.

14 EIPC, EWITS and JCSP all produce those results.
15 To be able to construct a grid flexible enough to meet these
16 future needs, the interregional provisions of Order No. 1000
17 should be strengthened. Some of the revisions that I would
18 like to see considered are standardization of minimum
19 benefits that are calculated for economic reliability and
20 policy benefits. This allowing the labeling and
21 categorization of projects into silo reliability or economic
22 projects so that you don't count all the benefits that
23 actually are being brought by those new bills.

24 Require periodic interregional planning that
25 incorporates good planning methods and that is designed to

1 produce a flexible grid capable of meeting a variety of
2 futures. The adoption of rules, of regional planning in
3 Order No. 1000 and cost allocation into the interregional
4 provisions of Order No. 1000. A synchronization of
5 interregional planning with the regional planning cycles.

6 Also, interregional needs and solutions should be
7 evaluated. Multiregional planning should be periodically
8 required to allow the assessment of large backbone and
9 long-haul transmission needs and solutions across multiple
10 regions. This can simple not be done in a region when you
11 just look at the regional needs across one boundary to
12 another region.

13 We also need to look at what we can do on
14 solutions that are feasible that are looking at multiple
15 regions, not just two regions together. Elimination of
16 procedural hurdles and limitations that have plagued the
17 first rounds of interregional planning. There are a number
18 of them. Some of them have been addressed in a recent case.
19 I think it's important in looking at all of this just to
20 examine where we are today. We're in the midst of huge
21 change. We need to have the tools to address it.

22 I ask that in light of all these issues, FERC
23 consider holding further technical conferences to seek input
24 for further development of these and other concepts that
25 would provide us the tools needed to plan and construct a

1 grid capable of meeting the needs of the new era, have
2 electricity consumption and production in the most
3 cost-effective manner for consumers. Thank you and I look
4 forward to your questions.

5 MR. KRAMER: Good afternoon Mr. Chairman and
6 Commissioners. I am Dennis Kramer and I appear today on
7 behalf of the MISO transmission owners. We welcome the
8 Commission addressing interregional transmission
9 coordination through the technical conference. While Order
10 No. 1000 is almost five years old, it's important to note
11 that the Order No. 1000 transmission planning enhancements
12 initially focused on the regional process. the Commission
13 correctly afforded additional time for the creation
14 implementation of the interregional processes and filings.

15 Therefore, the Commission should recognize that
16 interregional transmission coordination processes are in
17 various stages of implementation and development across the
18 country. Therefore it is premature to draw any significant
19 conclusions at this time regarding whether interregional
20 coordination procedures will ultimately be effective in
21 achieving the goals of Order No. 1000.

22 Regions like MISO have been actively engaged in
23 interregional coordination for many years using their joint
24 operating agreements and other agreements. Therefore we
25 believe that using pairs of neighboring regions continues to

1 be the most appropriate geographic scope for performing
2 interregional planning. This also is due to the fact that
3 several of the regions are very large geographic size and
4 that some problems that may appear on one seam may be very
5 different on the other seam.

6 While extensive interregional coordination has
7 improved and has occurred, we do believe that there are
8 improvements that can be made. Better scheduling and
9 coordination of timelines, studies, schedules, stakeholder
10 input and reporting could improve efficiency and
11 effectiveness. We also believe that eliminating any
12 duplication of efforts of studies could also be beneficial.
13 This also points out that there is a need for improved
14 coordination but it has to recognize that there are regional
15 differences in resource mix, market structure and
16 stakeholder composition and the Commission should continue
17 to accept and reinforce those regional differences.

18 In summary, the interregional transmission
19 coordination requirements have positively affected how
20 neighboring transmission planning regions coordinate and
21 communicate. However, while continued improvement is needed
22 to ensure that the full potential benefits of interregional
23 coordination are achieved, we do not believe that
24 significant new regulatory action by the Commission is
25 needed at this time to facilitate that improvement.

1 The regions and the stakeholders will continue to
2 examine their processes and procedures for potential
3 improvement and the Commission should be open to those
4 filings to implement the improvements. Thank you. I look
5 forward to any questions you may have.

6 MR. MCKEE: Good afternoon, I'm Bob McKee of
7 American Transmission Company and I'm also the President of
8 the Wires Group. Today I represent the Wires Group on this
9 Panel and though admittedly my Midwest roots will come out
10 in my examples, my comments are generally applicable.

11 First, I would like to say thank you for
12 conducting this conversation and including Wires in it. So
13 from Wires perspective, though the group appreciates the
14 efforts to date of the RTOs, ISOs, other transmission
15 providers, Wires believes it is appropriate for the
16 Commission to look into why projects are not being developed
17 under the Order No. 1000 and interregional processes to
18 consider why and to consider whether further guidance is
19 needed.

20 Wires believes this evaluation of interregional
21 transmission coordination is important particularly at this
22 point in time, as has been pointed out already by the other
23 panel because of the shift already occurring in the U.S.
24 Generation mix that is being driven by such factors as
25 environmental regulations and market forces. The ability

1 for customers to have access to resources across regions
2 enabled by interregional transmission facilities is critical
3 to making this transition in the most cost-effective manner.

4 As addressed in a recent whitepaper written by
5 the Bradler Group for Wires, our organization is concerned
6 that interregional planning efforts are still not resulting
7 in the development of projects that will provide customers a
8 broad set of reliability, economic and public policy
9 benefits across regions. We have pointed out a couple
10 potential areas, or a couple potential barriers to look
11 into.

12 One is the evaluation of project benefits.
13 Another potential barrier to look into is how regions
14 consider the interregional analyses that are done per Order
15 No. 1000 in their evaluation of including that interregional
16 project in their regional plans. So not only, we'll just
17 wrap this up really quick, not only do we believe that
18 reducing obstacles to developing interregional transmission
19 facilities will be critical to accessing the resources
20 across regional boundaries, we also think interregional
21 planning is also key to ensuring that the industry is
22 identifying the transmission facilities that are needed to
23 make the grid both flexible enough that we're not forcing
24 one path in terms of a resource mix over another and also
25 resilient enough that we're prepared for whatever the future

1 throws at us.

2 Wires looks forward to being part of the
3 conversation today and the important work ahead. Thank you
4 again.

5 MR. MONROE: Good afternoon. My name's Carl
6 Monroe and I'm Executive Vice President and Chief Operating
7 Officer for Southwest Power Pool. I want to thank the
8 Commission for allowing me the opportunity to speak to you
9 about the challenges and opportunities we see surrounding
10 interregional transmission planning and development.

11 SPP is uniquely situated with extensive
12 interconnections in Eastern Interconnection as well as most
13 of the ties to the Western Interconnection, all the ties to
14 the ERCOT and one to a Canadian utility now. Our seam with
15 MISO now extends approximately twelve hundred miles from the
16 Canadian Border to Eastern Texas and includes over 200
17 interconnections, the vast majority at voltage levels less
18 than 345-kb.

19 In addition to SPP's unique electrical location,
20 we also have some of the best onshore wind resources
21 anywhere in the world. SPP currently has nearly 13
22 gigawatts of installed nameplate wind capacity and 8-10
23 gigawatts of additional nameplate wind capacity that could
24 be in service by 2018. Earlier this year SPP set a North
25 American record for wind penetration levels when 49.2

1 percent of all load and the SPP balancing authority was
2 served by wind.

3 With minimum loads of 20 gigawatts and a peak
4 load demand of approximately 50 gigawatts, SPP's ability to
5 use much more of additional wind will be very limited. This
6 is where interregional transmission expansion is both an
7 opportunity and a necessity. To date, interregional
8 planning efforts have had little success in the terms of
9 project development. There's three areas that we'd like
10 the commission to focus on and endeavor to explore for
11 improvement.

12 First one is project eligibility criteria. The
13 second one is benefit quantification and the third is cost
14 allocation. These areas are key to effective and regional
15 planning rules and procedures and without effective rules
16 undermine interregional transmission development. For
17 example, some regional planning rules exclude a host of
18 projects from regional cost allocation which makes those
19 same types of project ineligible for interregional cost
20 allocation. This effectively precludes such projects from
21 even consideration despite the incremental operational
22 and/or economic benefits that they can provide.
23 Other rules do not allow a comprehensive set of benefits to
24 be calculated or even considered. Minimizing the types of
25 projects and/or benefits reduces the likelihood that

1 projects cost can be overcome and an equitable cost
2 allocation can be obtained. SPP knows that only agreeable
3 and equitable cost allocation will get projects built.
4 Projects considered should be driven by a whole range of
5 operational and economic benefits not other criteria such as
6 physical or cost characteristics of the projects; whether
7 it's voltage, mileage or project cost.

8 While the objective nature of these criteria are
9 attractive from an administrative perspective, they may not
10 be meaningful to the comprehensive benefits of a project or
11 can create artificial barriers to beneficial projects that
12 fall outside these criteria. With these current barriers,
13 SPP has proposed alternate processes and cost allocation to
14 move the ball forward without much success. SPP fully
15 supports the Commission's efforts to ensure the most
16 cost-effective, most effective and cost-efficient
17 transmission projects are planned and constructed.

18 We are hopeful and encouraged by the Commission's
19 interest in further improving interregional planning as
20 demonstrated by this technical conference today. Thank you
21 and I look forward to the questions.

22 MS. WEBER: Good afternoon and thank you for the
23 opportunity to participate in this technical conference. My
24 name is Angela Weber and I'm a Commissioner at the Indiana
25 Utility Regulatory Commission and I'm also currently the

1 Vice President of the Organization MISO States, or OMS. OMS
2 follows seams issues including interregional planning very
3 closely because they affect all OMS members. Nearly every
4 jurisdiction in MISO has a seam within or adjacent to it so
5 seams issues are very important to the regulator.

6 More recently seams dialog has become more
7 prominent in OMS because of new entrants into the RTOs. New
8 seams have been created and new viewpoints have been
9 introduced into the discussion. Thus, OMS began an
10 initiative in May to develop a seams policy for the
11 organization and we hope to finalize it in the next few
12 months and share that with you.

13 Notably not a single interregional transmission
14 project has been approved between MISO and SPP or PJM
15 although lack of projects alone may not be the indicator of
16 how well the interregional transmission rules are working.
17 It may be an indicator that the rules are not producing
18 cost-effective solutions to identified problems. Some OMS
19 members believe the lack of interregional projects is
20 insufficient to support the notion that the current rules
21 and processes are working while some believe it is
22 sufficient.

23 We do agree and believe however that the
24 interregional planning process and rules should not inhibit
25 the construction of beneficial projects that can save money

1 for customers and it should not favor interregional projects
2 over regional. We also agree that cost allocation for lower
3 voltage interregional projects should be evaluated as the
4 rules change to ensure not that only beneficiaries pay the
5 cost for these projects.

6 Recently, progress has been made between MISO and
7 the Southwest Power Pool and PJM to collaborate more closely
8 for better evaluation of potential interregional projects.
9 There has also been initiatives between RTOs to better align
10 the timing between regional and interregional planning
11 processes and OMS supports these initiatives.

12 In conclusion, I want to thank FERC for allowing
13 me to participate once again in this Panel and for providing
14 the regulatory perspective on interregional planning. The
15 impact on ratepayers of the cost of providing safe and
16 reliable service is important to regulators. The
17 cooperation between RTOs on interregional planning will
18 serve to minimize those costs when possible.

19 CHAIRMAN BAY: Well, thank you. This issue of
20 interregional transmission coordination is of particular
21 interest to Collette and I'd like Collette to begin the
22 questions for this Panel. Thank you.

23 COMMISSIONER HONORABLE: Thank you, Mr. Chairman.
24 I've been a very good colleague to get to go twice in one
25 technical conference. This is positive encouragement for

1 me, thank you Mr. Chairman. I want to thank each of you for
2 more than your presence here today and your written comments
3 but for the work that you're doing. Clearly, this panel, it
4 is a large one but the Commission has been very involved and
5 hands on in shaping these to make sure that we have the
6 proper perspectives at the table and by your remarks you
7 clearly demonstrated really a mastery of the state of
8 what's happening or not happening with interregional
9 coordination and planning efforts.

10 While I will readily admit that it is early yet,
11 I heard some of you say that now is not the time for broad
12 and sweeping changes to our work. I hear glimpses and
13 actually a number of areas of symmetry or like-mindedness
14 with regard to some areas that I see as opportunities for
15 ways in which to improve this work. So I acknowledge, yes -
16 - it's a bit early but if we see problems or a lack of
17 effort I think it still compels us to determine is there
18 something that we could aid in moving along interregional
19 coordination and work. I think your stories really speak
20 clearly for that.

21 Ms. Curran from MISO, in your written remarks you
22 spoke of a few areas that you say as fundamental drivers
23 for interregional planning and I heard Carl mention a few
24 and I want to tee them up and hear from the other panel
25 members. Jennifer, you spoke about project need

1 coordination, seams coordination and cost assignment and
2 then Carl spoke of some areas that I thought you were, you
3 thought needed our collective attention, project
4 eligibility criteria, benefit quantification and cost
5 allocation criteria.

6 I want to ask you, why are these the drivers that
7 are the most important because I think that and I admit that
8 I come to this place from work as a state regulator and
9 being very focused as whether mentioned on seams issues
10 because of the opportunity to reduce congestion, eliminate
11 seams, all of these things which benefit, not only consumers
12 and their pocketbooks but the ability to move power where it
13 needs to go.

14 So I'm going to ask you two why are these the key
15 drives and then I'd ask the other panelists to weigh in with
16 any other thoughts that you may have.

17 MS. CURRAN: Thank you. So the drivers we
18 identified are less about the means or criteria by which we
19 planned but more of the drivers for the plan and the three
20 we identified, two of them we think are very valuable and
21 one we think is frankly a little less valuable. In the less
22 valuable category we identified a driver called "cost
23 assignment" and that tends to be the outcome when we are
24 focused so closely on identifying a project, really any
25 project for interregional that we end up looking at regional

1 projects that are already in place and trying to find a way
2 to better match cost and beneficiaries.

3 While we are of course supportive of continuing
4 to approve of matching cost and beneficiaries to the extent
5 possible, given the limited resource set that is probably
6 not the best use of our collective resources from a
7 transmission planning perspective. So we really identified
8 two other categories which really have one thing in common
9 and they are about how do we address the needs that aren't
10 being met today by interregional planning.

11 So lapsing into a little bit of MISO speak, we
12 tend to think of planning being top-down and bottom-up.
13 Top-down tends to be let's find a need and then find a
14 solution. We think there is a great deal more value to
15 happen particularly given the changing resource mix from
16 taking a look at those kinds of needs. That's why we think
17 that's the right place to focus.

18 MR. MONROE: Thank you very much. I wouldn't
19 disagree with Jennifer. As part of the interregional
20 planning we do need to enhance the way that we look at what
21 the interregional plan is for, looking for the needs and not
22 just start with regional projects and seeing if we can find
23 a better project than that. The real issue that we had with
24 SPP even within the region of trying to start from a
25 perspective is what's the future hold for us? And actually,

1 what we found was even when we were going through the first
2 parts of that it wasn't as important as what the future held
3 because the business-as-usual gave us real similar answers
4 to any future we would pick, but it was actually just
5 looking at the current needs and seeing if there were more
6 efficient ways to do that.

7 So I would continue to agree that that's one area
8 that we could focus better on is in the regional planning is
9 identification of the needs. The cost assignment or cost
10 allocation, the way we've looked at it within SPP is unless
11 you work that out, unless everybody knows who's going to
12 work for what and how that's going to be evaluated, nobody's
13 willing to put forth a project.

14 So until you know who's going to pay for it most
15 people might want to know how it's going to be determined,
16 who is going to pay for it and that kind of leads us back to
17 some of the other ones that we brought up is one is if you
18 only have a limited set of benefits then it could skew the
19 way the cost allocation where a party will not be willing to
20 do that.

21 You know, we started with SPP with just
22 reliability needs. We had to meet the reliability needs and
23 if we could find a better project to meet reliability needs
24 then we would do that. That's kind of how some of Order No.
25 1000 interregional coordination efforts are now. You're

1 focused on just can I replace an existing regional project
2 with another one that's more cost-effective for the
3 reliability.

4 There's others that have stepped to the next step
5 of benefit which is just production cost. So just the
6 production cost is probably one of the larger benefits that
7 you get out of looking at, you can call that an economic
8 benefit that you can get out of it but there's a whole host
9 of study that WIRES did with Bradle has outlined a whole
10 host of other types of benefits. It's harder to sometimes
11 quantify those. You have to go through that and quantify
12 them.

13 So if you know the benefits and you know -- it
14 will help you drive the cost allocation in a more
15 cost-effective way. The people will be more willing to buy
16 something if they can get a benefit out of it. I think
17 backing up to the criteria, why limit the criteria of what
18 you can find because we found within SPP that lower voltage
19 project, short projects give a whole lot of benefit so why
20 not look at those also?

21 COMMISSIONER HONORABLE: Thank you. I heard that
22 or I read that from some of the written comments as well. I
23 happened to be at SPP on the day that that record was
24 broken. It was an exciting day. Paul Susky gave me a tour.
25 I'd been in the control room but not as a FERC regulator so

1 it brought a new realm of responsibility. Robert?

2 MR. MCKEE: Thank you. I just want to piggyback
3 off on something that Carl mentioned, particularly in terms
4 of benefits. As you guys sit up there and think about
5 "well, what is it we should focus on if we decide that
6 further investigation is needed or further evaluation is
7 needed." Benefits, from our perspective certainly is one.
8 The first question, okay why is it important? Because if
9 you don't look at the whole host of benefits or you look at
10 benefits in too truncated of a way, you run the risk of
11 leaving off what could potentially be the least cost, most
12 beneficial solution to customers.

13 We, I'm not going to read every specific type, go
14 to WIRESGROUP.com and we have studies on this like for the
15 organization, but just to point out a couple areas of
16 benefits that potentially you could look into. The first
17 one is with economic benefits, particularly we pick one,
18 right. just production costs, net-low savings. There is a
19 whole host of economic benefits that could and should be
20 considered including losses, avoided cost and capacity.

21 Another area to look into is benefits that are
22 particularly specific to interregional facilities; like for
23 instance reserve sharing costs from one region to the other.
24 Another area that we think should be drilled down into is
25 we've seen that regions have their own benefit matrix,

1 right, and having been a stakeholder in these processes for
2 a long time getting to that is tough, I get it. But what
3 happens is region A and region B get together and they say
4 "okay, let's drill down on the lowest common denominator"
5 and that means like a little sliver of the potential
6 benefits.

7 Then a 4th area that we would suggest looking
8 into is that in some cases we have different project types,
9 like a reliability project or an economic project or a
10 policy project and we have interregional reliability
11 projects and interregional economic projects but what if
12 region A has an economic benefit from a project and region B
13 has a policy benefit from that project. We need to be able
14 to marry those up because at the end of the day that might
15 be the best solution, so thank you.

16 COMMISSIONER HONORABLE: Very good, thank you.
17 Dean Gaw.

18 MR. GAW: Hi Commissioner. First of all, let me
19 say this and you'll have this history probably better than I
20 will, but thinking back over the last several years in the
21 SPP footprint about the importance of getting the dam broken
22 on getting needed projects built. You had to fix cost
23 allocation before that could occur.

24 We saw that happen as SPP migrated and the
25 Commissioners were very involved in this, as you well know.

1 Every time we solved one of the cost allocation hurdles, we
2 saw transmission start getting built from the first
3 reliability fix all the way through to highway/byway. Right
4 now we are missing that element in the interregional piece
5 in particular as it's tied to how benefits are counted and
6 how we deal with them. I think if you don't have some sort
7 of a set standard of we're going to count these kinds of
8 benefits, you get into very quickly a quagmire where either
9 one region or the other is going to count benefits that the
10 other one isn't going to count and if that ends up impacting
11 the way you allocate cost or if it's ignored in the way you
12 allocate cost, you get an unjust result or you get no result
13 at all which is generally what we're getting today.

14 So to me those two elements have to be dealt with
15 and we need something stronger than what we have in the
16 toolbox right now. The other thing is, the current way that
17 we're trying to accomplish what we're doing on looking at
18 the needs of the grid is just not broadly enough based. If
19 we don't have a way of aging interregional needs as opposed
20 to some sort of a better way of doing something that you
21 would do regionally, we're missing a whole gamut of what we
22 need to do to deliver more cost-effective power,
23 particularly when we have more and more resources come on
24 that are remote and that may very well be the best solution
25 for somebody in a different region.

1 But today, if all we're looking at is basically a
2 regional solution that could be done better interregionally
3 and only between two regions we never get there. We never
4 see those bigger important projects that could be
5 interconnecting multiple regions, we don't see anything on
6 the DC side which tends to come out when you look at the
7 modeling that's done on the eastern interconnect for
8 instance. I think if we don't get to the point where we can
9 do that, it's going to cost consumers more money and we have
10 to start thinking about it in that term. We already have
11 the model because we have done it on the regional side.

12 We have made that progress there, we have seen
13 how that's resulted in transmission getting built but we've
14 got to use that information and that track history and apply
15 it on a broader basis.

16 COMMISSIONER HONORABLE: Thank you. So I think I
17 saw John's and then Dennis, Maury and then Jennifer. Then I
18 have one more question and then I'll yield.

19 MR. BUECHLER: Thank you, Commissioner. I'm
20 involved in all of the issues people have been talking about
21 here for more years than maybe most around this table. I
22 have been with either New York ISO and myself in particular
23 have been active in seams which is a work I've grown to
24 hate. Resolution if you will for many, many years and many,
25 many years before this Commission as well and cost

1 allocation I completely agree is always the bottom line in
2 terms of I think my entire career has always been cost
3 allocation in some sense or another, at the retail level or
4 the wholesale level.

5 I think that there are elements that Bob made and
6 Steve in the Order No. 1000 current structure, which does
7 have this linkage between regional and interregional to deal
8 with the example that Bob raised a minute ago which was what
9 if one region has an economic need and the other region has
10 a public policy need or reliability which or whatever
11 combination that happens to be.

12 By having that linkage between the two processes
13 I would argue already allow you to address that because the
14 interregional project may certainly address different kinds
15 of needs in different regions so having the linkage with the
16 regions having to accept the interregional project if you
17 will, they can accept it on whatever basis their regional
18 process may have already come to.

19 So the comment about how long it takes within
20 even regional processes to come to a final agreement on a
21 process on the benefits on the cost allocation, I completely
22 agree. It takes a long time. It takes even longer on an
23 interregional basis. We've gone through that, all of us at
24 the table have gone through both of those in response to
25 Order No. 1000 more recently certainly and we've had to go

1 through the processes. The New York case and many of the
2 other ISOs, I'm not sure about all, the Commission has
3 accepted and approved the interregional cost allocation
4 basis on the voided-cost basis for the New York, PJM and ISO
5 New England Regions solely because the regional processes
6 are looking at the other aspects and the other needs and the
7 other benefits within their regions and those regions would
8 have to accept the project.

9 So with that type of cost allocation on an
10 interregional basis you would know first of all that there
11 are savings to each region, in some proportion or another
12 depending on what the mechanism has to be and those savings
13 go back to, well those costs lowered by the savings, go back
14 to each region and the regions already have a regional cost
15 allocation process on how to deal with those. That kind of
16 linkage to me seems like it makes a lot of sense and let's
17 say it avoids, hopefully avoids going back to that entire
18 process at yet another level and trying to come to the same
19 agreement on the process, the benefits and the allocation.

20 COMMISSIONER HONORABLE: Thank you. We'll put a
21 pin in that point because you're getting ahead of my next
22 question about that.

23 MR. BUECHLER: I apologize.

24 COMMISSIONER HONORABLE: No, no. Thank you for
25 teeing it up. Dennis.

1 MR. KRAMER: Thank you, Commissioner. Just a
2 couple of observations. Benefits and cost allocation are
3 directly linked because stakeholders' customers have to have
4 high, high assurance that the costs that are being allocated
5 are roughly commensurate with the costs that are being
6 charged. That brings to the point that there are regional
7 differences between say SPP and MISO and PJM. Those deal
8 with the current and future generation mix.

9 For example, in MISO I'm sure you're hearing that
10 there are numerous nuclear and also fossil power plants that
11 are going to be shutting down that hadn't been envisioned.
12 I don't know how that's effecting SPP but you know, MISO
13 there is going to be an impact. Also, there's differences
14 in markets, the capacity of markets and things of that
15 nature so when the stakeholders are looking at the costs of
16 being asked to pay, they're going to ask also, what are the
17 benefits that are applied to me? They have to be convinced
18 that those benefits are something that they value and that
19 they receive benefit from. That's not to say there are not
20 traditional opportunities for improvement and explanations
21 and education but we have to be careful in one size fits all
22 type of scenario.

23 Secondly, when we're talking about the benefits,
24 one of the things that was an interesting artifact of Order
25 No. 1000 was that it was requiring for interregional a

1 project to be identified in each of the regions. There
2 would then be a third project so to speak probably that
3 would solve both the problems. I think what I've heard from
4 Carl and Several of the others is that maybe there is an
5 opportunity here in the future for something broader than
6 that.

7 The term that I use a "whole cloth project".
8 Something that is looking at and is not tied to specifically
9 an existing identified regional problem but something that
10 is a broader base. I use this for an example, MISO and the
11 MVPs. The MVPs were recognition and acknowledgement that
12 there was broad and in that case, public policy need that
13 each of the individual states and our transmission owners
14 would be struggling to meet because we'd be solving
15 individual problems. As Jennifer alluded to, the bottom-up
16 process.

17 MISO looked at it and stakeholders came together
18 and said this needs to be looked at from top down. What are
19 the larger projects that can not only address the public
20 policy need but address numerous economic issues as far as
21 efficiency and sweep in hundreds, literally hundreds and
22 hundreds of reliability projects that don't need to be built
23 because the MVPs are going to solve them.

24 I think I've heard Steve say the same thing is
25 that maybe there's an opportunity to start looking at those

1 type of projects rather than being narrowly focused on just
2 replacing existing projects with something maybe a little
3 bit bigger. Thank you.

4 MR. GALBRAITH: So my thoughts go back to this
5 morning. I think I heard on the panel this morning that one
6 of the biggest risks to competitive transmission development
7 is getting regulatory approval in multiple states. I think
8 the comment was is that four states are harder than one. I
9 think that is certainly true and I think there's an
10 opportunity here for the interregional coordination planning
11 process to help with that issue.

12 The way it could do that is through joint
13 interregional planning. So for example it's probably very
14 helpful to a PUC who is considering an application for a
15 certificate of public need and necessity to have two
16 planning regions come in and both say the project is needed,
17 the project is beneficial. They're not going to be able to
18 take their word for it in all instances, right, so even
19 better than having two planning regions say it's needed
20 would be having a detailed and robust analysis of the need
21 and having it presented so that the Commissioner's can use
22 it in the record, in the proceeding.

23 So again, I think that one way to sort of address
24 that risk and try and lessen that risk is through robust and
25 comprehensive joint planning from the joint interregional

1 footprint perspective so that's one theme I want to come
2 back to.

3 COMMISSIONER HONORABLE: Commissioner Weber?

4 MS. WEBER: Thank you. A lot of what I was going
5 to say has been echoed so I'll keep it really brief. It's
6 interesting to me how the state regulatory focus also
7 overlaps with what happens with the RTOs at the Federal
8 level. What I mean is a lot of times what we focus on is
9 whether or not the utilities have what they need to have to
10 provide safe and reliable service if they're identifying
11 needs, if they're spending their money wisely, if they're
12 not spending too much money and if ratepayers are
13 benefitting and I think that is what's happening here.

14 I agree with a lot of the members of the panel
15 that need to be addressed, these processes at the
16 interregional level should identify needs and those needs
17 should be met because ultimately ratepayers will pay, will
18 benefit from that. If needs aren't met I think ratepayers
19 pay as a result of congestion and other cost increase. In
20 Indiana I think we actually experienced a situation where we
21 felt the need was not being met and we're hopeful that will
22 be met going forward.

23 Finally, I want to emphasize from an OMS
24 perspective that cost allocation is really important and
25 that's where the fight is at. Even at the State level,

1 that's where the fight is at, it's cost -- at the State
2 level it's cost causation, who's causing the costs and they
3 should pay for it and here it's going to be beneficiaries
4 who pay and I don't want that to get lost. That is where
5 our fight is at. I think you know that.

6 COMMISSIONER HONORABLE: Thank you for saying it
7 though for the record.

8 (Laughter)

9 Okay, Jennifer.

10

11 MS. CURRAN: Which is a great lead on maybe to my
12 comment. So maybe to put a finer point on why, you know the
13 MISO perspective is. Let's start with the need and the
14 project and not start with cost allocation as it has been
15 our experience that cost allocation is very divisive in part
16 because it leads to a lot of what if kind of discussion so
17 maybe in a little bit of a contrarian view to some that
18 you've heard it's been my experience that starting with the
19 planning, this is what we did with the multi-value projects.

20 You start with the planning and the broad
21 definition of the need and as the transmission shapes up it
22 becomes clearer where the benefit drivers are and where to
23 put cost allocation and how to land that at the end. It's
24 not an easy question but sometimes it's an easier question
25 when you have a little more definition around what is the

1 transmission you're talking about in front of you and so we
2 think there is some value to taking that approach although I
3 would say it took five years to do the multi-value projects.
4 I'm not suggesting it needs to take that long, but we do
5 encourage continued, you know we have stakeholders who are
6 committed to engaging in these ongoing discussions and I
7 think there's value to letting that continue to occur.

8 COMMISSIONER HONORABLE: The more organic
9 process, if you will. Okay, last but not least, Gary.

10 MR. DESHAZO: Thank you, Commissioner. So I'll
11 provide a bit of a perspective maybe from the West, sitting
12 next to my peers here who have very large regions compared
13 to the Western interconnection that has really four very
14 small regions. One of the things that I have been hearing
15 so far is this concept of you know, building these projects
16 and connecting these regions together, it sort of gives me
17 this, you know, I'm a transmission planner so whenever I
18 could build a project like that I'm going to you know, it's
19 sort of euphoric after eating a big chocolate bar or
20 something like that.

21 Well, the thing about that is I'm not sure
22 exactly what that means, at least certainly for us in the
23 West. If you look at what's happening certainly within
24 California and I think within a number of regions within the
25 Western Interconnection, we're actually seeing our loads

1 decrease because of the behind the meter solar that's being
2 installed. We're finding ourselves in situations where
3 projects that we had originally approved through our
4 transmission planning process we're now cancelling them
5 because we no longer need them simply because the overall
6 load in terms of how their manifesting themselves within the
7 state.

8 So clearly, you can understand that based up on
9 that then the concept of what kind of impact then does that
10 have on more of the interregional transmission that's in
11 play where you've been used to importing from other regions
12 and where you're finding your loads are now being more met
13 at the load center themselves so you're finding that the
14 need for imports may be somewhat impacted. So you know when
15 you talk about it's a great thing to build interregional
16 projects, I'm not sure I exactly understand really how that
17 is going to work for us.

18 The other aspect is that the State of California
19 is very much involved in the California ISO's effort. They
20 provide us the load forecast, they provide us the
21 information relate to what kind of RPS scenarios that we
22 should be looking at and one of the things that I know that
23 you have seen over the last 3-4 years is that a large
24 interest in interregional transmission-type projects with a
25 desire to want to build California because that's where the

1 money is. Okay, we have an organized market, it's very easy
2 for people to see and quantify benefits out of that market
3 and so the story is we have the resources, we can build a
4 500-mile or a thousand-mile transmission line to serve load
5 within your state at a lower price than what you could do it
6 internally.

7 That may be true, but it isn't us that makes the
8 decision about how to do that that goes back to the states.
9 At least to the state of California and I think that's a
10 component that you can't ignore in terms of what we're doing
11 when we're talking about overall interregional type of
12 stuff. We also talk about interregional planning and I
13 think I'm pretty clear about the order that you did not
14 require us to develop another process on top of the
15 processes that we have.

16 I keep hearing this concept of interregional
17 planning come back and I think we also need to be very
18 careful about that because I think you're really at the
19 ragged edge of now starting to talk about should we develop
20 an interregional planning process. Now, in terms of the
21 comments that I've seen from MISO and others I could see
22 where that would be possibly beneficial in terms of the
23 seams that they have because of the large regions that they
24 have. I'm not sure that that necessarily fits well into the
25 Western Interconnection.

1 We've thrown all of our efforts into really,
2 fully defining our regional processes and trying to continue
3 to work very closely to one another to make sure that we are
4 exchanging information that we're talking to one another all
5 the times so that we make sure that we're all using common
6 information. The concept being that if we're all common in
7 the basics then in terms of our regional plans and what we
8 come up in our regional plans it makes more sense when you
9 look at them together.

10 I certainly would acknowledge that we could do
11 better than where we are and we are doing better. Every
12 planning region is very much focused on trying to make this
13 work and for us to make this successful. So in time, I
14 think we will get there.

15 COMMISSIONER HONORABLE: Thank you. Perfect,
16 perfect segue to my last question. Mr. Chairman, I'm
17 delighted that that was such a robust analog. I didn't
18 intend for it to take so long.

19 (Laughter)

20 But my final question actually is one of great
21 concern for me because of comments I've heard from you
22 during my tenure here about the actual process and the
23 modeling and analysis that is taking place. As you're
24 considering interregional projects or the potential for them
25 and since in Mr. Kramer's remarks you referenced in your

1 comments, your written comments, Dennis you referenced
2 eliminating duplicative or redundant tests and studies that
3 could provide efficiencies that would benefit all parties in
4 a regional process.

5 I thank the WIRES report. Thank you for the
6 timely report and thank the Braddle group as well. It's
7 very illuminating that spoke to maybe some inefficiencies in
8 the process. This is really one example where I think we
9 noticed something that's off-track, maybe we should see it
10 as an opportunity to improve it. Recognizing that the
11 regions are working differently and that one size doesn't
12 fit all. So I wanted to first ask Mr. Kramer and Mr. McKee
13 if you have any other thoughts to add on this point and then
14 the other panelists and then I will stop talking. Thank
15 you.

16 MR. KARMER: Thank you, Commissioner. The
17 interregional processes are still in a state of development
18 even though we in some cases MISOs have JOAs with the
19 different adjacent regions for many years. We just recently
20 filed the Order No. 1000 compliance filings, which actually
21 had significant contextual and factual changes in them so we
22 still have some adjustments to make. The goal should be to
23 eliminate any redundant studies or tests because they take
24 time, they take energy, they take effort and they don't add
25 value.

1 The challenge becomes each of the RTOs, each of
2 the regions have their own unique attributes and their own
3 unique methodologies. The concern becomes I think one
4 individual maybe it was Bob McKee said was we don't want to
5 reach the least common denominator. So I think there is a
6 combination of education and information that can be
7 provided at the regional levels and at the interregional to
8 get this level of confidence and comfort with the analysis.
9 I do think it's going to take compromise. I do think that
10 is something that the interregional processes are run to
11 foster and I think Order No. 1000 will be a very integral
12 part of getting that process underway.

13 MR. MCKEE: Thank you. Alright and thanks for
14 that question. So the full warning, this is a little weedy.

15

16 COMMISSIONER HONORABLE: I'm ready.

17 MR. MCKEE: So this is another potential barrier
18 we think if the Commission so chooses to explore a little
19 bit because I think it comes from how Order No. 1000 was
20 written so as was discussed already and again I welcome the
21 RTOs to correct me if I'm wrong, I'm sitting next to one
22 right here, that --

23 (Aside with other panel members)

24 So what occurs is that we conduct interregional
25 joint evaluation. We get together, we do come up with a

1 model, right, a single model. We come up with assumptions
2 per the cost allocation methodology. We come up with
3 criteria. Eligibility thresholds, all that jazz, right. So
4 we have this interregional analysis. In that interregional
5 analysis we identify hey, maybe there's one or three
6 potential interregional projects that would address needs in
7 the regions in a cost-efficient, effective manner.

8 So then we go to the regions and then within the
9 regions we have a separate model and we have a separate set
10 of criteria and a separate set of assumptions. It's within
11 that handoff if you will, and I'll just use this phrase to
12 describe it, the regions don't necessarily use the
13 interregional analysis. They rely on their own analysis to
14 determine whether or not that project should be included in
15 the interregional plan. So I think it's that sequencing of
16 things if you will. That's an area that we think could use
17 some looking into.

18 MR. MONROE: Thank you, just to give you a little
19 historical basis of these talking about the interregional
20 part, we talked about 49.2 percent of the wind that could
21 not become accommodated without having a regional -- good
22 robust regional process that deals with a lot of the cost
23 allocation issues that have already been talked about on
24 the, and the benefits that would have to be calculated.
25 Just to give you a sense of that, we go through, we've just

1 gone through a study called the value of transmission at
2 that Brattle actually helped us with is to identify all the
3 benefits of a specific set of projects that were authorized
4 under the highway/byway and that's 3 to 1, 3.5 to 1 benefits
5 to cost ration.

6 Then also, we are also and this is one thing I
7 would say about one of the comments about you would have to
8 wait and do cost allocation after we get the projects
9 itself. We tried that, we found that you focus only on that
10 set of projects and that cost allocation. You don't get a
11 more broad sense of what cost allocation could have. That's
12 why we went into the highway/byway and so but we did add in
13 on the back end of the highway/byway that regional cost
14 allocation review where we go back and say well, if we did
15 this and we did this highway/byway all of these projects
16 that we've authorized by highway/byway, what are the
17 benefits and is everybody getting benefits for the cost they
18 are paying.

19 That shows a three to one and in fact we only
20 have one entity right now that got less than a 0.8 benefit
21 to cost ratio that we have to deal with mitigation of it.
22 But talking about the interregional, we agree that it makes
23 sense that if would agree with the parameters, the study
24 process and everything that goes into the interregional then
25 we don't need the triple hurdle of going through

1 interregional and then through two regional process. If we
2 could agree to that

3 The issue that we get into there is that is our
4 stakeholders are looking for all the benefits but you have
5 one that's only looking for reliability replacement one,
6 then the cost allocation may be askew when it comes out of
7 that. So they may not be willing to consider it, just based
8 on the cost allocation not based on whether the project
9 provides benefits to the interregional process too.

10 COMMISSIONER HONORABLE: So when it comes back to
11 the regions, it's a review rather than an entirely new
12 analysis?

13 MR. MONROE: Correct and that's where in the last
14 one we did with MISO, our review wasn't that much more to
15 take the models and just go through the review of it.

16 COMMISSIONER HONORABLE: I think that's a glimmer
17 of light. Just alright, we'll go to John and then see.

18 MR. BUECHLER: I'll preface my comments by saying
19 that in the regional analysis because our initial
20 coordination efforts did not identify potential
21 interregional needs that could be satisfied by an
22 interregional project. But we have thought about the issues
23 that were brought up by Bob and discussed by Carl and that
24 is the desire to avoid duplicative types of analyses and to
25 try to deal with the fact that there are regional

1 differences and differences in methodologies and so forth.

2 So we do have, in our joint protocol at least, a
3 method for doing that. Now we've been coordinating the
4 modeling and the databases with our neighbors for many, many
5 years so that we sort of have that in here. Now when you
6 get to the benefits that the different regions are looking
7 at and kind of how they're looking at them, it certainly
8 could be different. The protocol says we will endeavor,
9 "we" being the ISOs together in the stakeholder process,
10 will endeavor to resolve those differences at least for the
11 purpose of conducting the interregional analysis and if that
12 is not possible then within the interregional joint analysis
13 we will perform multiple scenario sensitivities, pick your
14 term for that.

15 All in an attempt to be able to provide the
16 information that each of the regions would be looking for
17 without having to literally duplicate that analysis. So we
18 hope that will work when we get to that point.

19 COMMISSIONER HONORABLE: Steve.

20 MR. GAW: Yes, thank you Commissioner. So first
21 of all I agree with what Robert was saying and I think Carl
22 basically said the same thing. After the fact regional
23 analysis is really getting to be a problem in regard to
24 trying to figure out. If you've agreed to what the terms
25 are on the interregional piece, the subsequent regional

1 analysis is only creating an additional bar and it has
2 proven to be a difficult bar to hurdle.

3 The other piece of this is on the front end. If
4 you have to come up with something to analyze that's already
5 been through the regional process before it goes to the
6 interregional process, you've got a number of hurdles there
7 to have to clear including the fact that the timing may not
8 be very good, the data may be very hold depending upon how
9 when that analysis was done relative to when the
10 interregional analysis was done and there needs to be
11 better synchronization than we have today on the timing and
12 how that process was done.

13 I just want to hit one other quick point and that
14 is when we're doing these, just in the experience that we've
15 had in the SPP MISO so far, we've had one round modeling.
16 That was done just on a business as usual case. The
17 discussion is now, and I think it's positive that they're
18 talking about doing another round, but so far the discussion
19 in the stakeholder groups have really centered around a very
20 limited study not looking at any kind of low-carbon future,
21 not examining anything to do with the broader seams that we
22 have across the region and the needs that may be there.

23 If we don't, I think it's important to figure out
24 if there's a way to ensure good planning practices, that the
25 scopes that are adopted include something broader than just

1 "oh, what have we been doing for the last 10 or 20 years but
2 anticipates and takes into account something that will give
3 us a more flexible outcome on the grid that is produced.

4 Thank you.

5 COMMISSIONER HONORABLE: Gary?

6 MR. DESHAZO: So Commission just very quickly, I
7 just, first of all I acknowledge that what these folks just
8 said is right. I think it's very important and sometimes it
9 does not happen as it should if ever. For us, because of
10 these interregional transmission project proposals that we
11 have and because of California's interest in its renewables,
12 we have for three of the regions, NTTG, WestConnect and the
13 ISO we recognized that it was important that we work
14 together to study these projects and so what we have
15 established, evaluation plans, the ISO will be providing
16 them the assumptions that we will use to study these
17 projects because it's really to source wind in either
18 Wyoming or Mexico and bring it into California.
19 California is going to provide the technical information
20 related to that. We already have all of our subject matter
21 experts that are working together so we will build common
22 cases. So here's a success, the problem is can we continue
23 that forward and that's where these folks are coming from
24 and I think I can certainly agree with that.

25 COMMISSIONER HONORABLE: Thank you all. Mr.

1 Chairman.

2 CHAIRMAN BAY: Thank you Collette. Tony?

3 COMMISSIONER CLARK: Thanks. Quick question for
4 Maury first because I was interested in your discussion
5 about Western issues and some of the challenges in
6 coordinating across the West. I'm curious, how much,
7 without getting yourself in too much trouble, how much do
8 some of those issues go away if you see a broader regional
9 market start to develop in the West?

10 MR. GALBRAITH: That's something we spend a lot
11 of time thinking about. I would say that as you're probably
12 aware there's a huge governance debate going on in the West
13 and I would bet that any governance proposal that's able to
14 get the rest of the West on board and participate in
15 California is going to have provisions in there where the
16 states and I don't know if that's the PUCs or some other
17 office in the states, is able to continue to weigh in on the
18 need for transmission and these issues so I think it's going
19 to be baked into any governance proposal that ultimately
20 succeeds but you know that's just a guess and I could be
21 completely wrong.

22 COMMISSIONER CLARK: I've been giving him more of
23 an opportunity to get in trouble with his state regulators.
24 I want to do the same for everyone else.

25 (Laughter)

1 I think one of the reasons the issue of
2 interregional planning captures people's attention or
3 imagination is because it seems to fill this gap of what we
4 all think about as these big lines that move power from
5 these resource rich parts of the country like the Great
6 Plains and moves then to the load centers across vast swaths
7 of geography so it helps sort of picture this in our mind.
8 But let me ask a kind of provocative and maybe depressing
9 question which is are we setting ourselves up for failure
10 given all of the other obstacles that exist to developing
11 transmission and siting transmission just given the current
12 state of the law?

13 So for example, maybe FERC, I mean we fix
14 everything to everyone's satisfaction in regard to Order No.
15 1000 interregional planning. We nail it, we get the
16 perfect process set up but the reality is you still have so
17 many challenges at the state and local level to try to get
18 through, even if you get through that process. I lived
19 through it in MISO and Jennifer you talked about the issues
20 you dealt with in MISO and having been through the upper
21 middle transmission development initiative and cost
22 allocation regional planning and MVPs, it's tough. That was
23 within one relatively discreet region where everybody had a
24 skin in the game.

25 Are we setting ourselves up on some kind of,

1 where we're just destined to fail because at a certain point
2 there's a township, a county, a state who just doesn't feel
3 like they sort of have a skin in the game and so they can
4 block a project. We're already seeing that in some of the
5 interregional projects by the way if I am to believe recent
6 headlines. Anyway, depressing question. I am curious as to
7 your answers. Jennifer?

8 MS. CURRAN: Thank you, Commission. So I would
9 not say destined to fail, but at the same time I would say
10 we should temper our enthusiasm and expectations so as I was
11 reflecting on some of the discussion in the earlier panel
12 and I think Steve mentioned some of the Eastern
13 Interconnection-wide study we've done and even before you
14 got to questions of things like transmission siting, we got
15 to questions of those other benefits. Local economic
16 development, right?

17 We may put some lines on a page and say "look".
18 It's really the most efficient for customers if you have all
19 the wind come from the Midwest and sink in the Northeast but
20 that might not be what the Northeast wants. I think we've
21 heard that's not what the Northeast wants. I think we need
22 to add some realism to that, you know to the expectation
23 about -- it doesn't mean we shouldn't do the planning, we
24 should and we should reveal those questions but I agree that
25 there's a lot of challenges in front of us, particularly as

1 you look at the multiregional because we do.

2 We see those even within a single region of MISO,
3 you know, much less with our neighbors and beyond.

4 COMMISSIONER CLARK: John?

5 MR. BUECHLER: That was a good lead-in Jennifer.
6 Maybe I could give a little more perspective on two sides of
7 your question, Commissioner. One is the broader
8 interregional types of analysis that you alluded to and the
9 other is the local interests and how they kind of link
10 together. I was in fact responsible for the coordination
11 committee of the IPC that ran the DOE Eastern
12 interconnection planning project from 2009 through the
13 middle of 2015 last year.

14 Steve alluded to that process as well and as did
15 Jennifer. There, the project was conducted, the charge from
16 the DOE and in accordance with the DOE FOA was to design and
17 issue and interconnection-wide planning process with
18 stakeholder advisory group in which the states played a
19 predominant role and notably cost allocation was not part of
20 the scope, alright. So even given that, a cost allocation
21 was not part of the scope. The effort took roughly
22 3 years because it was two distinct different parts of
23 that study but the interregional planning effort which
24 involved the entire Eastern interconnection took about 3
25 years to develop and to go through a very extensive process

1 in which the EISPC was also formed, which is the Eastern
2 Connection States Planning Council and it did have a very
3 important role in the process and there were not always
4 agreements on either side there, much less with the rest of
5 the stakeholder committee. But enough agreement was reached
6 and we ran like 78 scenarios in phase I and narrowed them
7 down to three and did a lot more detailed analysis on that.

8 The point is I'm supporting comments that
9 Jennifer made earlier and others that that type of an effort
10 requires a lot of time. I didn't deal with cost
11 allocations, just to say that once again, alright. So it
12 does require a lot of time. I guess what I'm getting to is,
13 I hate to say take little steps, but I think that the
14 direction in Order No. 1000 as just about everybody here
15 has said, has definitely improved the process, there is
16 still more improvement that's needed within that process.

17 Within the developing and bringing up the process
18 forward specifically to this panel, to the interregional
19 planning aspects. So I do agree with many comments here
20 that we should let that process, you should let that process
21 go forward and continue monitoring it, so forth but not
22 interject major change this time. The other part of your
23 question about cost allocation on a local kind of level and
24 state level, well New York is only one state, right. We
25 don't have the challenges of MISO or PJM or SPP, but that

1 has not stopped regional differences within our region there
2 has been, I've been in this industry in New York State since
3 1968.

4 There is an upstate/downstate differential of
5 opinion on just about every issue and certainly related to
6 energy policy that has existed and it still exists and it
7 never will go away. Layer on top of that just the kind of
8 normal NIMBYism stuff which we're in the middle of right now
9 as well with respect to Order No. 1000-related public policy
10 initiatives that we are underway right now. I don't have
11 the answers to those questions. I know you raised it from a
12 standpoint of jurisdiction or differences as well and I
13 don't have an answer to that. I've been around this for all
14 my life.

15 COMMISSIONER CLARK: Gary?

16 MR. DESHAZO: Well I'm sitting here thinking
17 about all the beer that must have been consumed over all
18 those years wondering what FERC had in mind when they wrote
19 this order and because I don't think anybody really knows
20 and I don't think -- but that's okay. I've, you know if you
21 talk to my peers in the Western Interconnection, they'll
22 tell you that I am a fan of Order No. 890 and I'm a fan of
23 Order No. 1000 and the reason that I am is because it is
24 trying to bring entities together to talk, to communicate.

25 If there is one thing that I remember about Order

1 No. 1000, there's a paragraph or at least a few sentences in
2 there that said that what you found from Order No. 890 was
3 that when regions come together and talk you have greater
4 probability of seeing a project occur. I particularly think
5 that's somewhat profound because I believe it's true. What
6 I am seeing in the Western Interconnection is through Order
7 No. 1000 is forcing the planning regions to come to the
8 table, not that we didn't necessarily coordinate on things,
9 we've always done the coordination but what you have done
10 through the order has helped us focus on the things that we
11 need to be thinking about and the things that we need to be
12 focusing on.

13 What you may have had in mind, I worked for, my
14 first boss used to tell me "whatever project you think
15 you're going to build is not the one that gets built". And
16 so whatever you may have had in mind at the time you wrote
17 the order, that may not be where you end up but we are going
18 to be better off in the end by the time we are done.

19 COMMISSIONER CLARK: As a native of the Nation's
20 #1 malt and barley producing state, thank you for your
21 contribution. Steve.

22 MR. GAW: Commissioner maybe I'm feeling a little
23 more optimistic this morning because I was just in your
24 great state a couple of weeks ago as you were and
25 Commissioner Honorable and others and other years so I'm

1 still feeling the sense of optimism. I also rode in here,
2 flew in here this morning on an Honor Flight. I know you
3 all know what that is. Veterans from World War II and
4 Korea now are on the flight. They had 20 I believe
5 altogether.

6 I think about the fact that those people that
7 were on that flight accomplished something that a lot of
8 people could have said they couldn't do at one point in
9 history and if you think about the fact that there are a lot
10 of soldiers on that flight that had specific duties, this is
11 your job, do it well and they did it with honor. If they'd
12 have sit back and worried about what the other soldier that
13 had a different job was going to do before they did it, I
14 don't know that we would have had the same result.

15 Today is the time. Yes there are obstacles and
16 they are significant. I completely agree. There are
17 sitting issues, there are different issues that we'll have
18 to debate but those obstacles are not reasons for us not to
19 do what is in the best interest of consumers in this country
20 and I know that this Commission has the ability to do it and
21 I know the people up here that are on this Commission are
22 very, very capable of making it happen so yes, I feel
23 optimistic. Thank you.

24 COMMISSIONER CLARK: Dennis. I'm not sure I'd
25 ever had to site a transmission line though.

1 (Laughter)

2 SPEAKER: But he built an awesome highway system.

3 MALE SPEAKER: Probably had
4 something to do with an interstate highway.

5 MR. KRAMER: Thank you, Commissioner. Actually,
6 Order No. 1000 helped to facilitate to achieve the goals you
7 described because it established the planning region whereas
8 in the past we'd have to come together with individual
9 transmission owners and small organizations. It gives us a
10 focused area, an individual entity to talk to. So that's
11 one big advantage that we have.

12 It's a question of a business case. Just taking
13 it to the MBA style. We have to think across regions to
14 look for the broader benefits, we then have to boil those
15 down to the local stakeholders at the state level that the
16 state Commissions can then look at, agree with and accept
17 that are going to provide benefits to their constituents,
18 Your State Commissioner. Commission Honorable is a State
19 Commissioner. You know the hurdles that you need to put in
20 place for transmission projects to protect your
21 constituents.

22 So is it a challenge, yes. Is it something
23 that's instrumental? I don't think so. Many people thought
24 that the MVPs would never occur. If you think back ten
25 years ago in 2005 when the Upper Midwest Transmission

1 Development Initiative, I'll stop using acronyms, was in
2 this vision, it just started. I'll challenge you, would you
3 have thought in relatively 5 or 6 or 4 year timeframe that
4 we would have the MVPs approved, moving forward with
5 everything in place. That moved very quickly from where we
6 were, where we became in 2011. So I would say that it's a
7 challenge but I think it's a journey that we need to start
8 on. Thank you.

9 COMMISSIONER CLARK: Thank you.

10 MR. MCKEE: Alright. Well first of all, I think
11 it's a great question because at the end of the day,
12 regardless of what's in the regional plan, developers, TOs
13 will have to go before Commissioner Weber and her colleagues
14 to get those approved, we need to address that.

15 So not only am I going to risk getting in trouble
16 with my regulators, I'll also get in trouble with my
17 membership --

18 (Laughter)

19 Because I'm talking out of scripture. But I will
20 say, I'm not going to temper my enthusiasm. I won't. as
21 Dennis pointed out with the, and you did too Commission
22 Clark with the UNTDI initiative, being from Wisconsin,
23 right. We're directly involved in that and we're directly
24 involved with the overall MVP portfolio. There were a
25 couple takeaways from that that I think though we have

1 regional differences and I think we should respect them, I
2 think there are some generalizable takeaways from that
3 experience.

4 The first one is, you've got to get states
5 involved in the process and they have to be involved in the
6 front end. We've found that if you partner with the States,
7 the RTOs, the transmission owners, developers, stakeholders;
8 you get everybody in the front end and you develop that
9 along the way, I think some of the issues you're alluding to
10 will be tempered quite a bit because they'll already have
11 weighed in on that front end as you're developing those
12 projects.

13 I truly believe that that was one of the key
14 factors in the MVP portfolio coming about was a partnership
15 with the states and I think we could generalize that across
16 the country as well.

17 COMMISSIONER CLARK: Carl?

18 MR. MONROE: I don't want to repeat everything.
19 I think one of the core values is evolution, not revolution
20 so I think you're seeing some of the evolutionary
21 suggestions back to you about Order No. 1000 itself. I
22 don't think these are reshuffling the whole deck but we're
23 actually looking for improvements in the existing process.

24 One of the things that has helped us on a
25 regional basis because I look at your question as just being

1 an extension of what we had to deal with on a regional
2 basis, is to have a regional state committee that had
3 authority over cost allocation itself particularly and could
4 give us guidance on that and getting them involved it really
5 forced us, us as an RTO, the stakeholders, the members and
6 the states to work together to come up with something and we
7 went through an evolutionary process to do that through a
8 balanced portfolio that was similar to what the MVP is, all
9 the way to this highway/byway now that as I said is really
10 working out well to built transmission that accommodates a
11 lot of use of renewables within SPP and provides a lot of
12 benefits in that regard too.

13 So I'm optimistic too that it could be done
14 because we've seen the progress that we've made within SPP
15 on a multistate basis.

16 COMMISSIONER CLARK: Thanks. Robert, do you have
17 one more thing.

18 MR. MCKEE: Yes, just one more quick parting
19 shot. I think the one other thing that I would add to my
20 comments is it's critical to show the states that need
21 justification. Dennis alluded to that right? You've got to
22 show us the need case and that's developed in that planning
23 process and if they're part of it, if the states are part of
24 that, they see that.

25 COMMISSIONER CLARK: Alright. Thanks. I'm in a

1 better mood now.

2 (Laughter)

3 I mean the cubs have lost like 6 of 8 so maybe I
4 was just kind of depressed walking in here but I feel better
5 about this now.

6 CHAIRMAN BAY: Great, Tony. Thank you. Cheryl?

7 COMMISSIONER LEFLEUR: Thank you. I want to ask
8 a big picture question that I think plays off Tony's
9 comments. I will first start off with a comment that I'll
10 put out in the interest of time I will do it all at once. A
11 comment that I'd like reaction to and then a big picture
12 question.

13 I had that backwards but, don't want to impair
14 anyone's beer consumption, but I was a quarter of the votes
15 for Order No. 1000 and at least, I can only speak for
16 myself. I mean, I can speak for others, but I won't.

17 (Laughter)

18 Let me put it that way because that's all inside
19 baseball. But the interregional coordination requirements
20 of Order No. 1000 were expressly soft. They were like the
21 process requirements for Order No. 890. That was an analogy
22 made many times because that seemed like the best place to
23 start. We heard again and again and again, don't require
24 interconnection-wide planning. It won't work, it's a bridge
25 too far, start far, start soft, start small, get this going.

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But there was a loose plan, at least in my mind and I don't think in my mind alone, that just like with Order No. 890. We started with coordination, then we came along with Order No. 1000 and said okay, now we're going to put some teeth and require planning and cost allocation that there might be a time with interregional where you start with coordination, get the regions used to working together and then come along and require more.

So the question, and I'm going to give my comment first is, is that time now, is that time coming? For those of you many who've said go slow, it's too soon how will we know when we're there is ever on that? My comment which ties to this is there's been so many comments today on the changing resource mix, it's mentioned in many people's comments.

There have been any number of studies by the National renewable energy labs and others that talk about one of the best ways to transition to a cleaner future is with a more robust transmission grade. That is almost axiomatic. Nobody knows better than these four people how hard it is to build fossil infrastructure so if that's the whole plan, it's a hard one. We've had such success much of it before Order No. 1000 I might add within the regions, with ERCOT building out the CRES and MISO in the MVPs and

1 SPP connecting West and East and KISO and all the lines for
2 renewables.

3 It's like we're trying to solve a big, I don't
4 know if it's algebra, linear algebra -- that was my worst
5 grade in college. A big problem where we have the good
6 locations for Central Station Renewables, the Population
7 Centers, the outlines of the RTOs and planning regions which
8 let's face it -- they're irregular and anecdotal and not how
9 you'd ever draw them, the state borders, and you're trying
10 to make this work but it can't be that the opportunities to
11 do what's going to get customers cleaner energy cheaper are
12 only in those weird borders.

13 I mean there must be at least some outside and no
14 matter how hard it is, if there is something in our
15 jurisdiction, I'd at least like to know. So what can we do
16 and when will it be time for
17 Order-whatever-we-call-the-next-one, if you have a thought?
18 That's my only question.

19 (No response)

20 Steve. Not surprised you were the first one.

21 MR. GAW: I'm sorry. I apologize for that.
22 Everyone here knows me knows why -- say sorry for me. So
23 let me say this first, Commissioner. First, I very much
24 appreciate the question. Secondly, when we look at where we
25 are today, the question on timing to me is really obvious.

1 We don't have more time.

2 I think that may have been for a lot of people a
3 different view when Order No. 1000 was in the crafting stage
4 but a lot has happened and we're seeing it happen right in
5 front of our eyes. I mean out in the field and everywhere
6 else, we need an interregional planning mechanism that is
7 more than just what it is today. We have a canoe and we're
8 being asked to cross the ocean. We need a bigger boat and
9 right now we need to do this because we're in the ocean.
10 We're not still waiting to decide. So I think it's
11 really important for us to get to the point we know what we
12 need to do too. I mean it's not, you've already pointed
13 that out. We are in a position where we understand based
14 upon a number of studies that significant transmission
15 build-out is the most cost-effective result. Now where
16 those lines should be and all of that other thing, that's
17 something to be analyzed but we have to analyze it.

18 If you don't have the ability to look at lines
19 across multiple regions, and right now we don't. we're
20 doing this two reasons at a time. We have to see in all of
21 those maps that we've seen are multiple region maps. If we
22 are going to do the analysis we have to have more than we
23 have today and I don't think we can wait. I mean, I have
24 seen several press releases and press statements by regional
25 transmission organizations about the clean power plan

1 analysis, all of which put laced inside of their comments it
2 takes so many years to build transmission and how long can
3 we wait?

4 Well, if we're going to solve this
5 cost-effectively and we don't have the ability to at least
6 look at these bigger solutions as a part of the solution,
7 it's going to cost consumers money and we're not going to do
8 it in the most cost-effective way.

9 COMMISSIONER LEFLEUR: Well, thank you for your
10 clear answer and your D-Day inspiration. Others? Harry --
11 Maury?

12 MR. GALBRAITH: So in some ways this question is
13 even more pointed than the question about the regional ISO.
14 There is tremendous frustration amongst public utility
15 Commissioners in the west about interconnection-wide
16 transmission planning. The reasons for that are sort of
17 multiple. I mean, the West had interregional
18 interconnection-wide transmission planning for the period
19 2009 through 2014.

20 The Western Electricity Coordinating Council was
21 working with the State Provincial Steering Committee. They
22 were taking study requests and they were planning
23 transmission interconnection-wide. The reasons for that
24 going away are multiple but one of them is FERC Order No.
25 1000 and the creation of the planning regions and them

1 taking on the role that they're taking on and WEC sort of
2 fading away and there's other reasons for that as well.

3 But there's tremendous frustration because it's
4 something the Commission had, they were accustomed to. They
5 were engaged in that process and I think if you look at
6 their engagement in the various planning regions of the
7 West, I don't think you see a lot of engagement. It's an
8 important issue. I think the time, it's not now, it's soon.
9 You can take incremental steps to get there and I think if
10 it persists for too much longer it's just going to continue
11 to fester and you're not going to make progress so thank
12 you for the question.

13 COMMISSIONER LEFLEUR: I don't know where to go
14 next. Gary? Thank you.

15 MR. DESHAZO: I don't envy the position that
16 you're in because of the varying positions that we all have
17 and somehow you've got to come up with something that is
18 going to fit and it seems more like a square peg in a round
19 hole I think in a lot of ways. I was very much involved in
20 developing Order No. 894, the ISO and our tariff in the ISO.
21 Our read of Order No. 890 and I think that I would, I think
22 I'd appropriately say, I think we read Order No. 890 in the
23 temp that you had wanted us to read it.

24 If you go and look at our tariff, you will see
25 the requirements for the ISO to reach out to our neighbors

1 with the intent of coordinating information and coordinating
2 data that I had in mind concepts of actually trying to do
3 sort of interregional type of analysis. Unfortunately, we
4 banged on the doors and nobody answered. So now comes Order
5 No. 1000 and that sort of, now people are home and it's a
6 much better opportunity for us now, but I'm sort of thinking
7 about one of your comments yesterday Commissioner Lefleur
8 where you were asking in terms of the order, you're reading
9 it for its legal requirement but you're also looking for the
10 spirit.

11 I think that what I see in the West is that we're
12 running into issues with the spirit of the order. When you
13 have situations where based upon our joint tariff, we have
14 an ITP an interregional transmission project that was
15 submitted to Northern Tier, WestConnect and the ISO but it
16 only electrically connects to Northern Tier and WestConnect
17 so they per our tariff are called "relevant planning
18 regions" that the ISO would be excluded from being involved
19 in conversations about that project, even though the intent
20 of the project submittal was to be a component of a path to
21 move Wyoming Wind to California but to exclude us from
22 participating in meetings because we were not a relevant
23 planning region.

24 I view that as that's purely a sort of a legal
25 consideration of what the tariff says and we're missing the

1 point on what the spirit of the order was intended to be.
2 In fact, that's just one example of those kinds of things
3 that we're facing. That said, we're at the table and we're
4 working through those. We're able to work with Northern
5 Tier and WestConnect to work out the issues related to that
6 because their concerns are they don't want to be perceived
7 as doing something that would be opposition of what their
8 tariff says.

9 So clearly we understand that, we get that part
10 but the ISO believes and I think really to a great extent so
11 does WestConnect, there's flexibility in there that you can
12 play with as long as we're getting done what we want to get
13 done but not everyone feels that way. I think this is why
14 we're saying we just need some time to get used to one
15 another to continue to work with one another, continue to
16 develop our relationship, our coordination process and
17 guides and so on and so forth. I really believe that a lot
18 of these issues that we're currently seeing are more just
19 sort of hindrances more than anything else right now. I
20 think that over a period of time we will be able to work
21 through those.

22 So for us in the West it may be a small issue
23 compared to what my other colleagues are having to face but
24 nonetheless that's where we're at and we think that those
25 are things that we can work through.

1 COMMISSIONER LEFLEUR: Thank you. Jennifer?

2 MS. CURRAN: Thank you. So now it's my turn to
3 be the optimist. I spent a lot of time through the nature
4 of my job thinking about these planning and operating issues
5 over the last few years and combining that and the
6 experience on multi-value projects and some of the things
7 that we've already hear about what needs to be in place to
8 move transmission forward, I'm optimistic that we're already
9 making the turn.

10 I don't disagree with my colleagues, in fact what
11 I am advocating is that we do spend more time and more of
12 our interregional focus looking at these broader-based
13 issues to really try to drive some of the, support some of
14 the changes we are seeing in the resource mix. The reality,
15 right, in the MISO footprint is that we do not have a lot of
16 load growth in most of the footprint. There are certainly
17 exceptions. So that traditional driver for transmission
18 really isn't there in the same way.

19 By the same token, if we look at gas price
20 differentials and the difference or lack of difference in
21 the portfolios between us and our neighbors, kind of this
22 reduction of congestion costs. The opportunity just isn't
23 as high as it used to be so a lot of it is going to come
24 down to how do we deal with integrating these new resources
25 reliably and efficiently. I have some optimism that we can

1 get there, that we're beginning to turn this ship.

2 When we talk about transmission planning in MISO
3 we talk a lot about the conditions precedent. The first
4 thing is having some sort of policy consensus which is
5 really having a shared viewpoint on what's the problem
6 you're trying to solve. The second thing which have been
7 mentioned a bunch of times if you've got to have a robust
8 business case for the plan so you have to not only have the
9 case but people have to agree with the case. That takes
10 time to bring people along and it takes their involvement to
11 bring them along and then ultimately you have to have an
12 appropriate cost allocation that matches who benefits with
13 who pays appropriately over time.

14 So to the question of if the time isn't now,
15 which I am saying well it's not now, then when, you know I
16 think the milestones to look for are do we see the focus
17 moving to more of a focus on some of these broader issues.
18 Do we see the business case being developed and then if the
19 business case is out there, is cost allocation a barrier or
20 have we managed to solve that problem. I think there's sign
21 posts.

22 Unfortunately it's not as easy as "is there a
23 project or not". I think that's an easy metric for a
24 dashboard. I think it's a little more "how is the process
25 going and are we beginning to see those changes.

1 COMMISSIONER LEFLEUR: Thank you. Dennis?

2 MR. KRAMER: Thank you Commissioner. I would say
3 that the MISO TOs have had discussions about the scope of
4 Order No. 1000. I think one of the things that we think
5 improves the likelihood of being achievable for
6 interregional is to maintain the region to region focus as
7 opposed to cross country focus because I'm not pessimistic
8 but also I'm a realist. I would think that we could
9 convince the New York ISO and ISO New England that they
10 should pay for transmission to move power from North Dakota
11 in the near term at least probably is a stretch but maybe
12 there's opportunities for the adjacent regions like Carl has
13 mentioned in SPP and things of that nature.

14 So we think that next that should be the focus is
15 region to region. One of the things that we have alluded to
16 and talked about is the changing generation mix and not only
17 a MISO footprint but across the country. We wouldn't think
18 that there needs to be something prescriptive for that
19 because these are market forces that are driving these
20 changes. One of the things that we've been talking about
21 are new generation connecting. Well, guess what?
22 There's a lot of generation that's retiring, it's shutting
23 down. So that's one of the focuses of the regional. Maybe
24 that's something we can look at, as Jennifer mentioned from
25 a capacity standpoint where we don't build locally to

1 replace retirements. Maybe it's an import or something of
2 that nature. What is cheapest for the consumer? So
3 focusing on those broader aspects beyond the you know,
4 regional problem and interregional.

5 It just solves those two individual regional
6 issues, it's probably where we would recommend we focus on
7 and trying to go with a suddenly bigger picture, region to
8 region and get away from the individual problem/solution
9 concept. Thank you.

10 COMMISSIONER LEFLEUR: Thank you. Bob.

11 MR. MCKEE: Thank you. So Commissioner, if I
12 interpret your question correctly you're just simply asking
13 "Okay, what's the ask? What's our ask?" and so I would say
14 at this point take an incremental approach if my memory
15 serves me correctly, 890 took a while to develop, right? We
16 had NOI, we had an OPR. It was years over development.

17 On this one I would say that we would ask to
18 evaluate the interregional coordination processes that you
19 have in place in Order No. 1000 in light of the issues that
20 are being raised in this docket, consider the need that's
21 out there at this point in time. I think that's, you know
22 we painted a pretty good picture in terms of the benefits of
23 interregional transmission, the situation out there and then
24 considered "Do you guys think additional guidance is
25 needed?" That's the approach we would suggest. Thanks.

1 COMMISSIONER LEFLEUR: Thank you. Carl?

2 MR. MONROE: Yes, quickly I will just reiterate
3 some of those but particularly that there are seams projects
4 that will be beneficial because we had projects that can't
5 authorize ourselves because we don't have enough internal
6 benefits but there's enough benefits for the project that we
7 know spill over to the seams so we know there's projects
8 there. In fact, we put out a slide that you can put all the
9 projects that were developed in SPP, all the projects
10 developed in MISO and you see a demilitarized zone between
11 the two of them so we know that just by observation that you
12 would expect something to be, something to be beneficial in
13 that area itself.

14 We've actually tried several things that we
15 believed that because we believe the Order No. 1000 process
16 and the Order No. 1000 has enforced enough of that, is by
17 doing things like, we actually have two -- a transmission
18 owner in SPP and a transmission owner in MISO that's
19 actually building a project together and sharing the cost
20 together because that was a seams project that was
21 identified that we couldn't get through the interregional
22 process.

23 We also know that there are other projects that
24 we'd like to be able to work on but we can't, it's not a
25 regional project on the other side, it's just or a specific

1 transmission owner. So we also filed a cost allocation for
2 non-Order No. 1000 projects itself and we haven't gotten
3 that so we'd like to be able to try things, the thousand
4 flowers blooming, that's one that didn't bloom for us.

5 (Laughter)

6 But we're going to keep trying because we believe
7 that there are projects that are beneficial, projects that
8 we could share and would provide benefits to all regions.

9 COMMISSIONER LEFLEUR: Thank you. I love all the
10 military, first we had General Eisenhower, now we have the
11 DMZ, someone is going to start humming "where have all the
12 flowers gone". Okay.

13 MS. WEBER: Thank you. I have to say directly I
14 think you're still in the coordination phase although I do
15 think the corner has been turned and I think it has been
16 turned because maybe some direction and some pushing from
17 FERC. Sort of to echo what Carl said, we have seen some
18 projects that are being built, but not as a result of the
19 interregional process because we can't get through it. So I
20 think there is still some more work to be done with
21 coordinating between the RTOs and those processes.

22 The criteria for evaluating those projects in
23 order for us to sort of fully turning the corner or maybe
24 fulfilling what the intent was behind Order No. 1000. I
25 think that's important too when you're looking at the

1 changing resource mix and it seems that even with the Clean
2 Power Plan you're pushing the states and ultimately the RTOs
3 to work together and coordinate. It's going to be necessary
4 that they do coordinate.

5 I want to give a plug. I was talking to a Staff
6 member from Missouri and specifically talked about that, the
7 concern that's seen between MISO and SPP and you have what
8 we've heard called the three hurdles. There is that issue
9 on that seam. You have these different criteria, the three
10 hurdles and so that I think in some states in OMS if I
11 remember it may be 8 or so. I think that that's the focus
12 of what maybe had happened with the PJM seam should be
13 turned to SPP so that coordination can be --

14 COMMISSIONER LEFLEUR: So do you think even if we
15 don't go beyond RTO to RTO we should put on more guidance
16 about the tests and so forth?

17 MS. WEBER: I think so. Yes I do.

18 COMMISSIONER LEFLEUR: Thank you. Thank you all
19 very much.

20 CHAIRMAN BAY: Thank you Cheryl. This has also
21 been a very, very interesting panel and like every other
22 panel at this conference, the range of views really spans a
23 spectrum. For today's panel, for Panel 4 there have been
24 panelists who have argued essentially that we stay the
25 course with perhaps some fairly modest minor adjustments.

1 Certainly there have been people at the other end of the
2 spectrum who have been arguing that the time for further
3 Commission action is now and that the Commission really
4 should be more directive and provide much clearer guidance
5 to the different planning regions.

6 So I guess my question is this: Even for the
7 panelists who would want to give the process more time, who
8 are somewhat more in the state of course can't, are there
9 certain measures that you think that the Commission should
10 start thinking about and implement even now. Can the Panel
11 at least reach a consensus on some potential modification or
12 tweaks to the interregional process on Order No. 1000?
13 Certainly there are panelists today who want the Commission
14 to push harder and farther but for those of you who are
15 counseling a more tempered approach, what do you think the
16 Commission should do if anything?

17 MR. BUECHLER: Mr. Chairman. Let's go back to a
18 little bit of history and go back further than I did before.
19 When I was a managing director to form the New York ISO, I
20 was managing director for the New York Power Pool Utilities
21 and as you know that was a gentle nudge, maybe not so gentle
22 from Order No. 88 that came to actually all of us within the
23 Northeast region.

24 We, all at different timeframes, to propose
25 formation of an ISO. In that process and in our initial

1 tariff filings, there was a consensus of opinion that I did
2 not share amongst my other transmission owners and utilities
3 in New York at the time, which was not to have any planning
4 process in the NISO tariff and we did not. I was not within
5 that group. However, purred somewhat for Order No. 2000
6 even though the New York ISO later on did not choose to
7 request RTO status and then a planning process at least that
8 was the initial Commission kind of nudge a little further to
9 have a planning process in it.

10 If you're going to have an RTO and even though we
11 did not collectively, we're a stakeholder so we decided not
12 to go to that level, what we did take-away from Order No.
13 1000 was that yeah, we thought it would be a good idea to
14 put a planning process together and we voluntarily worked
15 with the stakeholders for almost two years to file our
16 initial reliability only regional planning process which is
17 accepted by the Commission back in 2004.

18 You know the rest of the history and so the
19 Commission, we should know the time of year and planning and
20 I have said I told you so to my other brethren that are
21 still working in the industry in New York and it doesn't
22 surprise me one bit. So I will say that I am definitely a
23 supporter of planning and more planning and of regional and
24 interregional planning.

25 Within the spectrum and timeline that we are

1 right now, orders No. 890 and Order No. 1000, and the fact
2 that the planning processes implementing Order No. 1000 are
3 still evolving and they're evolving at different speeds and
4 so forth and it's been talked about already. I'll go back
5 to I guess the comments I made before. I think that those
6 processes should be left to continue to evolve. Remember,
7 you have been, even with the "two region only" and with the
8 maybe less than ideal gerrymandering of some of the
9 regions, just with the two-region alone, looking at MISO,
10 SPP and PJM being neighbors that's huge. Looking at
11 maybe little New York and little ISO New England but next to
12 and having an interregional planning process with PJM.
13 That's huge. So I think you have things to be proud of as a
14 Commission that you really have driven that process and you
15 know enforced those additional requirements and it is moving
16 ahead as I think everybody said here. It is moving ahead
17 and it's moving ahead in different ways and different
18 regions as discussed. I think that is appropriate.

19 So what do I think that the Commission should be
20 doing at this point? I would say you should be monitoring
21 the processes that we have in the different regions as you
22 are doing here or starting to do here today and make that a
23 continuing effort. I'm not going to suggest a frequency but
24 I mean that would be the appropriate thing to do at this
25 time.

1 CHAIRMAN BAY: Angela.

2 MS. WEBER: Thank you, Chairman Bay. I kind of
3 do this funny dance when I'm a State Commissioner and Vice
4 President of OMS so I want to be respectful of other states
5 with an OMS. They would state that the processes that they
6 are not necessarily broken. Some would say something hasn't
7 been built in all these years with a regional process so
8 there's a problem and others would say there's no problem,
9 continue to just let it play out and if that is not evidence
10 enough.

11 So I want to be respectful to that position so I
12 want to say also Commissioner on the floor that some states
13 would say yes, put out some guidance and do more and some
14 would say there's no evidence that there's a problem right
15 now. So they would tell you to also monitor the process, I
16 think, so I just want to put that position out there.

17 CHAIRMAN BAY: Jennifer.

18 MS. CURRAN: So another vote for monitoring the
19 volunteer of you know, I think maybe some type of reporting
20 how things are going or I heard a suggestion of further
21 technical conferences but I think there is some value in
22 some continued discussion as this plays out.

23 The other action, maybe for clarity as I've
24 talked about no action needed. I do think about it in more
25 of the generic sense but I think the other place where

1 action could be taken is on the individual changes that come
2 forward so in the MISO footprint we are not so much in the
3 position where we're letting the process play out and just
4 watching to see what happens. We're actively engaged, both
5 from a regional perspective and with our neighbors on
6 making sure we can make filings to address the low-hanging
7 fruit or introduce creative solutions like interregional
8 only projects to help us move forward.

9 I didn't want my notion of lack of broad action
10 to substitute for the fact that we do think changes will
11 continued to be needed and we will continue to continuing to
12 work with our members to bring those to you.

13 CHAIRMAN BAY: Dennis?

14 MR. KRAMER: Thank you, Mr. Chair. One of the
15 things we do need to remember is that each of the seams is a
16 slightly different stage so trying to implement a
17 one-size-fits-all as far as something prescriptive would be
18 problematic. However, on the stack of what's been said
19 there's a need we think for monitoring of progress and
20 monitoring of status where regions would give reports, say
21 for example on their interregional results. This would give
22 an idea of what are the stumbling blocks or hurdles that may
23 exist and what their impact are.

24 Also the concept which we talked about quite a
25 bit which is broadening the interregional concept beyond

1 just placing existing projects and looking at those broader
2 needs. So those are the suggestions, thank you.

3 CHAIRMAN BAY: Gary?

4 MR. DESHAZO: Mr. Chairman. In speaking in
5 context of the Western Connection I continue to feel that
6 we're working in the spirit of what I believe that the order
7 is requiring us to do. We came up with the joint tariff
8 between the four of us. I can't name anyone within the calf
9 ISO that ever believed that we were going to be able to do
10 that. We just did not believe that was going to be
11 possible but after digging into it and going through that
12 process and learning more about each other we did find
13 common ground. We built on that common ground and ended up
14 in a joint tariff that we currently have in place.

15 I think we're all, as planning regions, very
16 proud of what we've been able to accomplish. I think that
17 at least in essence for us at least, I guess in my opinion
18 what I would try to convey is that having accomplished that
19 is the Western Planning Region's way of saying that we are
20 committed to trying to make this work. I can understand
21 that they're wanting to be some little tweaks here and
22 there. I can't see a reason for doing something like that
23 at this point in time.

24 Certainly the monitoring, you know, quite frankly
25 the fact that you're even asking this question should

1 probably scare the crap out of somebody.

2 (Laughter)

3 So maybe that's enough because they know that
4 you're watching and that's important that it be done that
5 way but for us in the Western Connection I think that we're
6 very committed to seeing this thing be successful and that
7 we will continue to work together and coordinate together.
8 I will say one last thing, please do not let the fact that
9 you don't see interregional transmission proposals come out
10 of the Eastern interconnection as a sign of failure because
11 that's far too simple an observation to reach that kind of
12 conclusion because there are too many other variables
13 involved.

14 There are state variables involved, there are
15 other issues that have to be taken into account that are
16 most likely more unique to the Western Interconnection
17 possible than to some of the other regions but I know that
18 there's this propensity to want to say "well, I haven't seen
19 anything happen." Well, we've only been at this for six
20 months and considering the amount of time it took us all to
21 put this together in the amount of staff and resources
22 committed to doing this, it's not really a very long period
23 of time.

24 Certainly as I've said before, you know, we
25 should get through this cycle and see where we are at the

1 end of this cycle.

2 CHAIRMAN BAY: So I have one last question and I
3 appreciate the time of all the panelists. I know we're
4 going a little bit over right now. Staff here recently
5 issued a report with transmission metrics and it's a very
6 interesting report. One of the facts in the report is that
7 for the really big interregional transmission lines that
8 have been built in the U.S. over the past few years, they
9 were all merchant transmission projects and that's not
10 necessarily what criticism of the efforts of planning
11 regions under Order No. 1000, but you know, it's simply a
12 fact. That's how the big lines have been built over the
13 past few years.

14 So is there anything else, is there anything more
15 that the Commission should be doing with respect to merchant
16 transmission development that could help facilitate that
17 process because the big lines can either be built from Order
18 No. 1000 or they can be built as a merchant project. So I
19 don't know if any of you have thoughts on that particular
20 question. Carl?

21 MR. MONROE: I tend to agree with you. They are
22 meeting a need that we haven't been able to identify in the
23 interregional process. to me the focus that Jennifer has
24 talked about and Steve has talked about looking at those
25 needs that go outside, we kind of have a good idea of how to

1 meet the needs within our region but it's hard for us to
2 express those needs across the regional boundaries too. At
3 least these parties are finding places where that makes
4 sense, that they found the need to do that. So I would
5 tend to agree with you.

6 Until we can get the interregional process to
7 identify those needs and create these new projects as
8 Jennifer has talked about or Steve's talked about outside of
9 that. You are probably going to see those merchants at
10 least do that.

11 CHAIRMAN BAY: Steve.

12 MR. GAW: First of all I would agree with what
13 Carl just said. If you're looking at the impediments, if
14 you think about emergent project that every single possible
15 hurdle is there for them, that could be and not having them
16 really integrated at all particularly in some of these
17 projects into the current planning process creates an
18 additional problem with them when they go to get signing
19 authority. We've seen that in the past. If there were
20 some mechanism where they were included in that process it
21 might be of assistance in helping to facilitate first of all
22 assessing the value of those projects and also getting some
23 sort of an approval, that then gives them something to say
24 that there's a public interest value that's been met.

25 So I think that would be helpful. Again, you

1 have to get outside of this lock we're in right now of
2 saying where it has to be something coming up through the
3 regional process because these bigger projects like this are
4 something, they're really meeting an interregional need and
5 there may not be something on a regional basis that's
6 comparative to it. Until we get beyond that I think we're
7 really not addressing some of those -- and those are just a
8 part of it.

9 Now just one more piece I would encourage you all
10 to at least think about in regard to the soft positions that
11 are here about whether to move forward. Actually, starting
12 some sort of a technical conference docket that would allow
13 more input into this arena so we could get more of this
14 information into you and have folks recognize that this is
15 not just an afternoon. Thank you.

16 CHAIRMAN BAY: Thank you for that comment Steve
17 and just a reminder that we are taking comments after the
18 technical conference and I think we also have indicated that
19 this could be the first of a series of tech conferences.
20 John?

21 MR. BUECHLER: Yes, Mr. Chairman. I would say
22 that with regard to merchant projects, you're doing it
23 already. We haven't had a lot of discussion in these couple
24 of days about the other major function of all the ISOs and
25 RTOs that are sitting here today which is to run competitive

1 wholesale markets. Merchant transmission, I would argue, is
2 a result of those competitive markets and just the last
3 point is getting back to the risk discussion of the previous
4 panel this morning and the concern about cost to consumers.

5 We, our planning process in New York is driven
6 by, first and foremost we find needs and we solicit
7 solutions including market-based solutions and they have an
8 explicit preference in our tariff before you get to a
9 regulated solution. So I think you are doing it already and
10 market-based solutions if you want to use that word are a
11 good thing in cost to the consumer and where the risks are.

12 CHAIRMAN BAY: Well, thank you John. I want to
13 thank all the panelists for your very, very thoughtful and
14 informative comments this afternoon. We will take a break
15 now and resume with our last panel at 2:50 p.m.

16 Break at 2:34 p.m.

17 CHAIRMAN BAY: Alright. Welcome back everybody.
18 Now we have our last panel of the conference, our 5th Annual
19 Regional Transmission Planning and Other Transmission
20 Development Issues and we will start with Michael from
21 National Grid.

22 MR. CLAVIOU: In my comments I'd like to pick up
23 on some of the themes that we were discussed in earlier
24 panels particularly around the differences between the
25 sponsorship model and the competition model. Transmission

1 projects tend to last many years and they get to evolve so
2 it's very often a project will be fundamentally different by
3 the time you finish the design and the evolution of the
4 project what was conceived and therefore when you choose the
5 competition does have a some quite fundamental effects.

6 We strongly believe that the sponsorship model
7 has a scope for bigger customer savings, we see much more
8 innovation in terms of designs and people coming up with
9 concepts which maybe would not have been conceived if any
10 party, however good that party is, is identifying the best
11 ideas. So there's lots of potential benefits in the
12 sponsorship model but cost containment measures and
13 inevitably going to be much more complicated to apply at
14 that point because the scope isn't pinned down. There's a
15 lot of uncertainly about permitting, sitting issues, etc.

16 You can't just reapply something that might apply
17 in a process where the scope is fixed and apply the same
18 concepts, say cost caps in a simple way, in a project
19 sponsorship. My other comment is to say we would support
20 transmission competition where it makes sense for customers,
21 we have to recognize there is an overhead in a competitive
22 process, both in terms of the costs or the bidding
23 preparation cost and the timescale and therefore we should
24 focus competition on where it makes sense, the bigger
25 projects, the projects where lots of innovation confuses

1 benefits to customers. Thank you.

2 MR. GULLEY: Good afternoon, my name is Don
3 Gulley. I am President and CEO of Southern Power
4 Cooperative. We're a generation and transmission
5 cooperative that serves rural Southern Illinois and we serve
6 some of the poorest areas in the state as well as
7 nationally. Many of our members that are on the end of the
8 lines are the ones that are bearing the costs and are
9 currently living well below the poverty level.

10 We are vitally interested in transmission cost
11 development. In fact, over the last three years we have
12 seen our regional development costs go up over 380 percent
13 in the last three years and according to MISO and looking at
14 the build-out of MVP projects, we expect those to double
15 again before we get to 20/20. Many elements have been
16 discussed today and yesterday around cost, cost containment
17 but at the end of the day what it comes down to for us is
18 what is the rate? What is the customer, the consumer
19 ultimately going to pay?

20 We really have two asks and they're very simple.
21 Number one: Transparency. We're interested in having a
22 more transparent environment. To better understand the
23 models, to better understand the benefits and the costs that
24 are going into those models so that we can communicate and
25 be able to tell our board and our members back home, this is

1 what we're getting for the dollars that you're spending.

2 Number two: Whatever process that comes out of
3 this. What we'd like to see is that we're able to evaluate
4 the actual results. Go back and look at the projects, learn
5 from the past. Find out what we're doing well. Repeat
6 those, if there's things that we're not doing well, stop it.
7 I appreciate your time and particularly your attention and
8 recognition that it's ultimately the consumers at the end of
9 the line that's going to win or lose in this process. Thank
10 you.

11 MR. HERLING: Good afternoon. My name is Steve
12 Herling. I'm with PJM. I'll speak to some of the numbers
13 that are in the materials we submitted. We've run a number
14 of windows on our Order No. 1000 process. In each of our
15 windows we publish a significant volume of work identifying
16 a lot of issues that need to be resolved so each window is
17 not related to one project.

18 We have, in fact approved a hundred different
19 projects through those windows. Ninety-five of them roughly
20 ended up being upgrades to existing infrastructure and was
21 served back to the transmission owner of that
22 infrastructure. Of those ninety-five, some of those clearly
23 benefited from having had a window and examined a number of
24 alternative solutions but more of them probably did not.
25 Most of them, it was probably fairly obvious and after we

1 did the analysis our conclusion was that we were going to
2 upgrade a piece of infrastructure and give it back to the
3 transmission owner.

4 We've had a lot of argument about the Greenfield
5 projects and about some of the upgrades. Bottom line is a
6 lot of people have talked about transparency and obviously
7 we've learned from all of our experience that we need to do
8 a lot to improve the transparency of our process at the
9 front end, doing analysis at the back end when we award the
10 projects, but the bottom line is we have got to narrow the
11 focus. We have made one filing and we will likely be making
12 a couple more to narrow the focus of our proposal windows so
13 that we can really look at the projects in depth so that
14 most of the benefit can be derived.

15 The bottom line and the most important thing for
16 us. We're not afraid of having an argument about which is
17 the best solution but we cannot let that argument delay
18 projects to the point where we're not solving reliability
19 problems in a timely fashion. Market efficiency problems if
20 they are delayed cost customers money but reliability
21 problems leave risk on the table for customers and that's
22 unacceptable.

23 MR. HOLTZ: Chairman, Commissioners. Thank you
24 for inviting me. I appreciate the opportunity to present on
25 this Panel. My name is Matt Holtz. I'm managing director of

1 transmission at Northern Indiana Public Service Company,
2 also known as NIPSCO. NIPSCO is a member of MISO, a
3 transitional member of MISO so I'll focus my comments on
4 the MISO process.

5 Since 2008 through 2015, MISO Board of Directors
6 approved around 18 billion dollars' worth of transmission
7 projects through an attempt at process, 62 percent of those
8 upgrades were baseline reliability projects, 29 percent were
9 multi-value projects, 8 percent were generational
10 connection projects and half a percent or 87.5 million
11 dollars were market efficiency projects so and the market
12 efficiency project numbers, not for a lack of need over the
13 same time period, MISO experienced year over year rising
14 consistent with congestion in light of falling natural gas
15 prices with a peak of 14 dollars per million BTU down to 2
16 dollars per million BTU with a total real-time congestion
17 summed up over that period of 6 billion dollars.

18 I've summarized that in a graph on page 6 of my
19 prepared comments to give you a visual of what that means.
20 Obviously our focus is on the opportunity within the MISO
21 process with a market efficiency projects there is a need
22 there but the process hasn't cleared that logjam yet of
23 needed projects to deliver lowest cost energy to end-use
24 customer.

25 What's the wire market efficiency projects

1 important? They are meant to bridge the gap between market
2 operations and the long-term planning. In the planning
3 world, that is after the generator has interconnected
4 through the generational connection process, through
5 operations, to the Baseline Reliability Project, where
6 that's a backstop to fix just some problems where it becomes
7 chronic rather than, to Steve's point, an economic issue. I
8 know that it impacts customers, it impacts producers.

9 Omar is on the Panel and he's been part of other
10 proceedings including NISPCO and EL1388 so if he could
11 expand on some of the impacts to producers who've not taken
12 advantage of bridging that gap. The issue doesn't stop with
13 the regional process. It spills over in to the
14 interregional process. MISO and PJM just recently filed a
15 noncompliance filing an EL-1388 to use the two regional
16 processes and to substitute for an interregional process.

17 What's that mean? They take a separate ERTAP
18 process with some models and criteria and separate NPEP
19 process with some models and criteria and somehow they'll
20 meet up and develop an interregional project. We ask that
21 the Commission reject the approach and really go back to the
22 approach defined within the order of EL-1388 of using a,
23 when you're reading the order in the whole, using a joint
24 model study jointly, using the benefit metrics from the
25 original process was on that joint model. Then figure out

1 the cost allocations between the RTOs and perform the
2 interregional analysis that way.

3 NIPSCO plans to file inside the docket with that
4 approach to expound on it, on really what does that mean and
5 the impacts to the customer and the impacts to the regional
6 process but in conclusion really refining the market
7 efficiency process offers the greatest opportunity within
8 MISO but also in the interregional space to free up the
9 logjam of projects that are going to ensure lower cost
10 energy is delivered to customers and we can accomplish that
11 through a refined process focused on models that capture
12 system benefits, actual system results with included future
13 needs and proper metrics to really capture the system
14 benefits and then optimize over the region and
15 interregional. I look forward to your questions. Thank
16 you.

17 MS. HUNT: I'm Heather Hunt with the New England
18 States Committee on Electricity or NESCO which is New
19 England's Regional State Committee. Thank you for including
20 us here today. I admire your stamina so I'm going to be
21 exceptionally brief with the issue that we wanted to raise
22 for your consideration going forward and that is with the
23 exception of the last panel, much of the conversation over
24 the last few days has been about the appropriate allocation
25 of risk between ratepayers and shareholders. So there is

1 discussion of the processes and the mechanics and the
2 decision making associated with that.

3 The question that New England wanted to raise for
4 thought going forward to benefit from the experience in the
5 other regions is whether and how we might be able to
6 allocate some of that risk by and between shareholders
7 differently on a going forward basis in the circumstances
8 where they may be no competitive process for transmission
9 needed for reliability. That is the case in New England
10 today due to a variety of factors, one of which is the
11 three-year exemption for projects needed within three years
12 and the study process associated with that.

13 For clarity, the New England States are not
14 interested in competitive solicitations for the sake of
15 them. They cost both the RTO and developers money and to
16 the extent that it doesn't make sense to proceed under a
17 competitive framework, might there be some way to try to
18 deliver to consumers the benefit of the allocation of risk
19 on a going forward basis. Thanks.

20 MR. LUCAS: Good afternoon and thank you for the
21 opportunity to present here today on behalf of the
22 Southeastern Regional Transmission Planning Group or
23 otherwise known as SERTP. The SERTP Sponsors are pleased to
24 inform the Commission that our implementation of Order No.
25 1000 is going quite well. There has been little, if any

1 controversy with respect to the projects that the sponsors
2 have selected to be included in the regional transmission
3 plans.

4 The sponsors attribute that to their longstanding
5 tradition of utilizing a bottom-up approach to transmission
6 planning whereby the native load and network customers and
7 other firm customers under the tariff, they inform the
8 transmission planner of their decisions in the future as
9 well as their load forecast and other input parameters. The
10 transmission planners then use that to develop the most
11 efficient and cost-effective transmission plan that serves
12 the needs of all those customers on a firm, physical basis.

13 We would leave the Commission with two thoughts
14 here today about adjustments needed to Order No. 1000.
15 Number one, the regional and interregional processes are
16 still very young in how they are developing. With respect
17 to the regional most regions have only completed a single
18 cycle and most of the interregional is in the stages between
19 middle and final implementation. As such, we just don't
20 feel there's enough information in the way of lessons
21 learned, trends, what's been working well, what needs to be
22 adjusted to inform the Commission enough that you would need
23 to change the core principles of Order No. 1000. That's our
24 first thing.

25 The second thing would be, and I know this is not

1 going to be a popular message in the room, the first three
2 panels all dealt with issues surrounding cost containment,
3 cost recovery and how those play with incentives. We would
4 note for the Commission those are attributed to voluntarily
5 adopted processes in those regions that were not required in
6 Order No. 1000 and for the most part the Commission clearly
7 said in Order No. 1000 it would not address those items.

8 Therefore if the Commission feels the need to
9 make adjustments in those regions, we would just ask that
10 you direct those changes to the regions where those
11 voluntary processes had been adopted. Thank you very much.
12 I look forward to your questions.

13 MR. MARTINO: Good afternoon. My name is Omar
14 Martino and I'm the Director of Transmission Strategy within
15 the Evaluation Transactions Group at EDF Renewable Energy.
16 Before I read my prepared comments I want to thank the
17 Commission for inviting me here to speak today and my
18 comments are primarily coming from an independent power
19 producer view for regional and interregional issues.

20 Some RTOs and transmission owners have argued it
21 is too soon to assess the effectiveness of Order No. 1000
22 for regional and interregional effectiveness. We disagree.
23 There is a need to fundamentally change and enhance how
24 transmission is planned and utilized in this nation. RTOs
25 are holding on too many historical ways of doing things that

1 are inhibiting cost-effective, efficient and maximum use of
2 the grid. Commission directives are needed to require RTO
3 to expand the transmission planning concept in their
4 tariffs.

5 I will discuss key several areas where regional
6 transmission needs need to change. First, real transmission
7 planning should annually identify persistent binding
8 transmission constraints. Right now, no assessment on
9 congestion occurring in real time is regularly undertaken by
10 the RTOs. Congestion is extremely costly and unnecessary to
11 ratepayers and generation owners. RTOs should be required
12 to remand their tariff to include a congestion management
13 protocol that number one, lists triggers for congestion
14 identification and two annually assesses whether an
15 economic upgrade is more cost-effective than persistent
16 congestion.

17 One of the measures that can be used to
18 identification of congestion triggers can be the use of
19 excess market-to-market payments of both 5 million dollars
20 for example or price differential between regions and
21 trading costs in the order of 3-4 megawatts per hour or
22 procurement of generation of about 200 hours annually.
23 Lower voltage facilities should be included in congestion
24 and economic transmission of the analysis. We are
25 experiencing high level of congestion and curtailment on

1 lower voltages. Yet, the RTOs do not review congestion or
2 consider economic upgrade at lower voltages.

3 Third, regional transmission model needs to imbed
4 resource interconnection service rates and preserve them for
5 customers that pay for the NRIS notable upgrades. RTO are
6 not doing this. Order No. 888 requires the transmission
7 provider to preserve network integration transmission
8 service and firm point-to-point service rights, especially
9 where the transmission customer found network upgrades.
10 RTOs capture this in regional transmission planning so they
11 reach transmission capacity to serve these paying customers.
12 However, there's no compatible treatment for NRIS for the
13 interconnection customer.

14 Fourth, regional transmission planning should
15 realize great modernization and optimization tools such as
16 dynamic line ratings and measurement units to manage
17 congestion in the short term. Both the use of VLRs and PMUs
18 can lead to revisit how a skid is operated for wind projects
19 and how wind projects are dispatched in general.

20 Fifth, a standard 3 or 5 percent distribution
21 factor should be used. The facts or distribution factors is
22 a measure of the impact on transmission element from a
23 proposed generation project. RTOs are not employed lower
24 enough defects. These allow new generation to connect
25 without properly shoring up the grid.

1 Lastly, the regional transmission and generation
2 interconnection process should be united, not separate and
3 distinct. The current construct causes transmission to lag
4 behind generation needs. This causes the generation to fund
5 upgrades where surge in transmission is not timely
6 considered. The transmission planning process essentially
7 in our view only accommodates deliverability for
8 load-serving needs. There's no forethought for transmission
9 to accommodate regional generation need. Thank you again
10 for inviting me here to speak. These are very important
11 matters to us and I look forward to the questions at the
12 end.

13 MR. SUSKIE: Good afternoon Chairman and
14 Commissioners. My name is Paul Suskie. I'm an executive
15 Vice President and General Counsel for Southwest Power Pool
16 and we appreciate the opportunity to be here. In
17 preparation for this technical conference, SPP identified
18 four issues that we thought were important. Number one, the
19 need for improvement in regional issues that your last topic
20 panel covered. Number two, the need for multi-region
21 planning. Number three, whether or not there should be
22 minimum threshold requirement for competitive transmission
23 solicitation requirements, and number four, the
24 establishment by the Commission of Order No. 1000
25 implementation metrics to measure its success. Because Mr.

1 Monroe talked about one and two I'll concentrate on three
2 and four.

3 As Chairman Bay witnessed in August, SPP
4 completed its first competitive solicitation process. in
5 its order, FERC called for more efficient and cost-effective
6 solutions. However, in our experience in that first
7 competitive prose that we have it does raise the question of
8 whether the cost of administering these processes of
9 competition can be outweighed by the benefits.

10 So in our first process that we went through it
11 was open competition between qualified entities, eleven
12 entities submitted proposals. Only one was selected. The
13 winning bidder or proposer had an 8.3 million dollar
14 proposal. SPP spent five hundred thousand dollars or a half
15 a million dollars studying it. through a survey of some but
16 not all of the eleven bidders, they ranged between three
17 hundred and four hundred thousand dollars per proposal that
18 they submitted. So that calculates out to between four and
19 five million dollars were spent for a project of 8.3
20 million dollars.

21 So we're not saying it should be done but we've
22 raised the question, is there a minimum threshold that it
23 should be? The cost of administering that both for the
24 competitors as well as SPP was about between 46 percent and
25 59 percent of the cost of the project so all those costs

1 aren't born by ratepayers. Some are by the competitive
2 companies but it does raise the question of should there be
3 a minimum standard set.

4 With that, we would suggest that Order No. 1000
5 requires any regional funding that the project could be
6 competitive in nature. We would recommend that the
7 Commission consider a couple other additions to that. One,
8 put a minimum threshold on the fiscal characteristics of the
9 proposed projects, for the length of the project, for the
10 size of the transmission development and or the cost of the
11 actual upgrades so these are some ways you can maybe think
12 through a minimum de minimus threshold of when you should be
13 competitive.

14 Last issue I'll raise up is metrics, is for this
15 Commission and its Staff to develop how to measure the
16 success of Order No. 1000. Similar to what Chairman Bay had
17 mentioned earlier about the metrics for transmission
18 development. Every region is different and maybe these
19 metrics should be different but there should be a way that
20 we can hopefully measure the success of Order No. 1000 and
21 whether it's working as intended. I look forward to your
22 questions. Thank you.

23 CHAIRMAN BAY: Thank you, Paul. Cheryl would you
24 like to begin the questioning?

25 COMMISSIONER LEFLEUR: Well, I actually asked to

1 go first for this panel and now I'm wondering why with such
2 a diversity of statements to challenge me.

3 (Laughter)

4 No, but I know why because this was the Panel to
5 which more general issues about how Order No. 1000 is going,
6 was relegated and with a great group of experts to talk
7 about it and thinking back to my opening statement I said
8 I'm trying to think, its seems like a week ago but I think
9 it was just yesterday afternoon,

10 (Laughter)

11 Trying to think generally about what value Order
12 No. 1000 is adding. My first question is a little bit
13 provocative. I will put it to you fortunate people who are
14 sitting here but I would welcome comments from anyone who is
15 going to be commenting in the docket because it's something
16 I've been thinking a lot about. It relates a little bit to
17 although coming at it from a different angle, to the issue a
18 lot of you brought up of what goes to the competitive
19 process and what doesn't go through the competitive
20 process.

21 At the time when Order No. 1000 was voted out, we
22 made the decision, it's really two things together. One is
23 the planning and cost allocation which we talked about a
24 little bit in the last panel, adding more teeth to order
25 890, really requiring binding cost allocation regional

1 planning in RTO or non-RTO regions and so forth.

2 The second component was the introduction of
3 competition into transmission and the elimination of the
4 right of first refusal from incumbents in certain
5 circumstances with certain exceptions. Now looking five
6 years later, I guess the question I have is what impact has
7 the turmoil and transitions of eliminating the role FERC
8 and the introduction of competition, the threat of
9 competition had on the planning process if any.

10 For the first year I was at the Commission I
11 heard from many, many incumbent transmission owners almost
12 all of whom thought we should not eliminate the right of
13 first refusal and suggested any number or parade of
14 horrors that would happen if we did to transition
15 planning, including one person who actually said to be "you
16 will be killing regional transmission development because
17 transmission owners will no longer build the big things.
18 They will build what you allow them to build and not bid
19 out."

20 We've had now a number of proposals to limit what
21 goes through competition, perhaps extremely valid but also
22 informed by the wishes of the people in the regions as well
23 as I've observed in other than the two regions that have
24 done a lot of the windows as I talked to people they're
25 saying "we've done a lot of our big work already, really

1 right now it's more of the little projects we need. More of
2 our money is going into the smaller reliability things.
3 That's what we really need in the region. We don't have as
4 many of the big projects."

5 You know, I'm concerned, has the fact that we're
6 doing these two things at once, do you think the concern
7 whether it's the cost of competition or the threat to the
8 business model of the transmission owners has impacted the
9 planning process itself? It looks like Paul is ready to
10 take it on.

11 MR. SUSKIE: Sure. What we have found, actually
12 there's a number of companies that want to be in the
13 competitive model. Last year, I think it was 44 or 43
14 qualified entities to bid. This year I think there's an
15 additional ten and so as a result there's a real interest in
16 it. Because we'd already had planning and cost allocation
17 in place it really didn't change us much on that end. Our
18 big change was implementing the competitive process.

19 Staff thinks it went well. There are some
20 lessons learned, we are going to try to improve it. In
21 general, I'd say we had positive feedback from the
22 stakeholders through that first competitive process. Now,
23 the entity that finished first that was outstanding. Number
24 2-11, you know, they all have various challenges.

25 COMMISSIONER LEFLEUR: A few of them have come

1 around visiting I know us.

2 MR. SUSKIE: We realize that and so any time you
3 invoke that, it does invoke competition and that does change
4 the nature of the relationship and the tenure. We did have,
5 we did what I call the hybrid approach. We have a
6 sponsorship model in part whereas if you submit an idea and
7 it's selected and its bid you get a 100 point adder on the
8 thousand point scale. In that, now that's a very
9 competitive process on the front end and you also have a
10 competitive process on the back end so we're still seeing
11 through it. I think it went well. Can be some improvements
12 but we'll have to wait and see. I haven't seen a reduction
13 in entities wanting to build. Actually the number of
14 members of the RTO has grown.

15 COMMISSIONER LEFLEUR: Have most of those were
16 new entrants to the region or, I mean, has it been a
17 transition for your incumbents?

18 MR. SUSKIE: There were, we did not publicly
19 state who bid, we just announced who won and who was second
20 but there were incumbents and non-incumbents and there were
21 new entrants that were formed by in companies. So it
22 definitely spurred a lot of interest in transmission
23 building.

24 COMMISSIONER LEFLEUR: I guess I'll start with
25 Mike and go down because I didn't count the cards.

1 MR. CALVIOU: A thought to the contrast
2 experience in New England and New York where we operate, I
3 think in New England where there's been always a very strong
4 regional transmission planning process and good cost
5 allocation, there's been a lot of transmission build over
6 the past 10 or 15 years and therefore according to where you
7 introduced Order No. 1000 there's not many big projects on
8 the horizon and therefore there's probably, we hadn't seen
9 much activity and there has been a concern that where
10 products are identified should there be allowed to process
11 only regional or local.

12 So there is a bit of a concern about potential
13 slowing down needed transmission development because of
14 legal discussions, etc. I think that evaluating New England
15 is the fact that there is not a lot of load growth so any
16 new transmission projects are either going to be caused by
17 generation retirements which are going to come on short
18 notice and therefore probably be another three-year sort of
19 provision or going to be driven by the need for new, clean
20 energy and therefore at the moment that's being done by the
21 Freestate, the NJRFP which I think you heard about
22 yesterday.

23 So I think it's probably unclear at the moment in
24 New England about the possible benefits and there are some
25 concerns. I think in contrast in New York where the

1 regional planning hasn't been as strong historically and its
2 cost allocation is probably only started we resolved more
3 recently and we are starting to see FERC Order No. 1000 in
4 work as you might expect and there has been two
5 solicitations with a variety of projects coming forward.

6 So I think it does vary in terms of where your
7 starting point is and I think if the process is
8 well-defined, the scope is defined and there is a good way
9 of making sure that all the projects are being properly
10 assessed on a level playing field. Then it can be done and
11 it can produce benefits.

12 COMMISSIONER LEFLEUR: Thank you. Don?

13 MR. GULLEY: Commissioner, I have somewhat of a
14 unique perspective when it comes to looking at the value of
15 FERC Order No. 1000. Our business is somewhat, I'll call it
16 schizophrenic in nature. We are a transmission owner and
17 operated. That serves half of the load of our member owners
18 and then we're also a transmission dependent utility that
19 serves the other half of our load. So we see both sides of
20 the equation.

21 We're certainly interested and think that the
22 order can bring value in providing opportunities for
23 reliability projects and do it at the lowest possible cost.
24 Again you hear me continuing to talk about how does that
25 ultimately impact the consumer on the end of the line. But

1 it also may give us a unique opportunity to coin a phrase
2 "if you can't beat them, join them." While I also am
3 representing the national Rural Electric Cooperative
4 association and cooperation among cooperatives, there are
5 some within the NRECA organization that's looking at FERC
6 Order No. 1000 partnering and looking at opportunities to
7 use this to help offset some of the costs that we're seeing
8 on the TDU side of our business. Thank you.

9 COMMISSIONER LEFLEUR: Thank you. Steve?

10 MR. HERLING: As I said before in 2014 and 2015
11 together we approved 100 projects. In 2012 and 2013 each
12 year it was substantially higher than that. Hundreds of
13 projects. Had nothing whatsoever to do with Order No. 1000.
14 In 2012 and 2013 we were putting out projects that deal with
15 the retirements that came in after the finalization of the
16 natural. Those projects have all settled out. The
17 retirements in the last year or so have been much, much
18 smaller than what we saw in 2012 or 2013.

19 The load growth has dropped off tremendously. We
20 are looking now at 7/10ths of a percent a year. So the
21 number of projects at least in PJM has nothing to do with
22 Order No. 1000. We're introducing every need that we
23 identify and we're getting plenty of people to bid proposed
24 projects so nothing is changing in terms of the attention to
25 the number of projects that need to be introduced.

1 COMMISSIONER LEFLEUR: With the low load growth
2 do you think we will see more market efficiency or public
3 policy driven projects?

4 MR. HERLINE: Yes, the drivers are going to
5 shift. Number one, you're going to see public policy, both
6 at the Federal level potentially driving resources all over
7 the grid at the state level bringing renewables and other
8 resources onto the grid. You're going to see aging
9 infrastructure, you are going to see resiliency. It's
10 changing the dynamic of what the needs may be and that could
11 be lots of small projects, it would be any number of big
12 projects. Only time will tell but the introduction of Order
13 No. 1000 is not going to change the need. The need is
14 driven by all the factors I just listed.

15 COMMISSIONER LEFLEUR: Alright. Mathew, thank
16 you.

17 MR. HOLZ: Two items. First the impact of the
18 process. I think the most apparent in the MISO process is
19 additional time in the bidder selection process. it adds
20 another year after board approval so there is a little delay
21 on actual construction of the project itself. As far as
22 opportunities for developers within MISO it kind of goes
23 hand in hand with our proposal on the fixing the market
24 efficiency process. those are generally cost allocated
25 projects that would be open for competitive bidding.

1 They're going through that process now with Duff
2 Coleman recent market efficiency project within MISO. So
3 then you can lock in that underlying value. It would give
4 developers some additional opportunity within MISO and then
5 going along with NIPSCO I can't drop it or take advantage of
6 the situation. Say interregionally there are opportunities
7 there as well with the different regional processes. If we
8 can bridge that gap and have a common joint analysis of
9 those interregional issues there are additional
10 opportunities there as well for developers so you can get in
11 on that space.

12 COMMISSIONER LEFLEUR: Thank you. I know you
13 live on the seam. Thank you for both of those comments. We
14 heard a lot about market efficient yesterday too. Heather?

15 MS. HUNT: Yes, thank you. I don't know that
16 there's been any evidence of any adverse effect on the
17 planning process for reliability project in New England as a
18 result of Order No. 1000. ISO --

19 COMMISSIONER LEFLEUR: They excluded it from
20 competitive bidding anyway, right?

21 MS. HUNT: Right, right. So that said, New
22 England has had substantial investment over the past 17
23 years, 7 billion to date with about 5 billion on the horizon
24 so we might be in that category of regions where they just
25 have that smaller projects coming down the pike in the

1 nearer term. I think the upside to your order is that
2 consider today consumers pay the cost of even incentives
3 associated with costs that exceed initial cost estimates
4 and those projects that exceed estimates also have a
5 presumption of prudence.

6 So the fact that we're talking about whether it
7 makes some sense to shift some of that risk around, we think
8 it's very constructive. I think that has influenced the
9 states in connection with the three-state RFP that was
10 referenced earlier. That model sort of asks bidders to
11 assume some risk and there's a favor for that. With respect
12 to the other component of Order No. 1000, at this time the
13 New England States don't intend to use the public policy
14 planning process. I think that was originally intended to
15 be a tool and that has at least potential if properly
16 structured to be a tool.

17 At this point the states are proceeding in
18 another way I think to get to the same end in a way that
19 they feel sort of better satisfied their needs in connection
20 with the determinations at the end of the day in that
21 process.

22 COMMISSIONER LEFLEUR: Thank you. John?

23 MR. LUCAS: So Commissioner, let me see if I can
24 give you my take on it and I've got an idea on the end of
25 that that I, from listening to all five panels now, maybe

1 it's something the Commission can focus on. I would say in
2 general it's too early yet to tell. By way of a commercial
3 for the SERTP, so this is the largest planning region in the
4 Eastern Interconnect by way of circuit miles, over ninety
5 thousand circuit miles. Ten sponsors, four of those are
6 jurisdictional, six are non-jurisdictional.

7 It covers parts of fourteen states through the
8 service territories of the, and we have a mixed bag. We
9 have incumbents and then we have at least one entity that
10 has a non-incumbent transmission development company. So
11 sort of benchmarking my remarks around that, we've not seen
12 a competitive proposal yet. We've not seen a proposal to
13 suggest a more efficient or cost effective transmission
14 project than what the ten sponsors have rolled up in a
15 regional plan.

16 COMMISSIONER LEFLEUR: You mean you haven't
17 identified any regional projects so you hadn't had any
18 windows? Is that right?

19 MR. LUCAS: No, we've identified a number of
20 regional projects.

21 COMMISSIONER LEFLEUR: That were not being done
22 before by the individuals?

23 MR. LUCAS: Right. We identified them but the
24 sponsors determined those were not more efficient and cost
25 effective than what we have rolled up into the local plan.

1 So they definitely performed their affirmative obligation to
2 build. I think in the 2015 cycle there were nine projects
3 for that region identified. None of those determined to be
4 more efficient or cost-effective.

5 I think when and if we do get a proposal, as
6 others have commented, I think inherently it has slowed the
7 process. I think it's naturally added costs for the
8 sponsors and those who are participating to evaluate those
9 projects and go through them. I think, and it's pulled on
10 that string that I think Craig Glazer mentioned yesterday,
11 the L in planning. I think it just naturally gets to a
12 litigated sort of front when you can't get to a decision
13 and you're looking for who's the entity? Who's the
14 regulator that I need to help me with that decision? I
15 guess my thought that I commented about a fix to us, and we
16 tried to suggest this in a compliance filing and the
17 Commission did not see our way on this but I think we have
18 got to include the states earlier in this process. I heard
19 yesterday cost containment gets proposed, cost caps get
20 proposed, then it turns out you can't get a rate approved
21 consistent with the cost cap and so it kind of turns the
22 selection upside down.

23 In our model that we had originally proposed to
24 the Commission, we had intended that that state sort of
25 sign-off would be earlier in the selection so that the

1 developers would propose something, it looked like it might
2 be in the money. We would tell them, "okay sharpen your
3 pencil, make some filings at FERC, get it approved to where
4 we can contract for the revenue requirements we would need
5 to pay."

6 We envisioned they would go do that and we would
7 take that basket to the states and say "we've assessed it,
8 it has a higher benefit-to-cost ratio than what we were
9 doing in the regional and the local plan rollup. We stand
10 here with that developer, the contract with them, looks like
11 we would have done it." We seek recovery at the state
12 level. And the Commission wouldn't allow us to sort of
13 include that state signoff step earlier in the process.

14 I feel like, after listening for two days, it's
15 something we ought to rethink and scratch our heads on is
16 that it would help the cost containment, it would help who's
17 making the decision here because it would allow the
18 developer to go to the Commission, get that sign-off and all
19 that package to be sort of signed off with the states and
20 then selected in the plan. With that, that's my thought for
21 the day but I'll quit.

22 COMMISSIONER LEFLEUR: Well, thank you for that
23 thought. I think you all for your comments. I didn't, lest
24 anyone wonder, it wasn't that I was rethinking whether we
25 should reinstate the roll-up, just to make sure that we've

1 set up a robust process. we've heard a lot yesterday and
2 today about the importance of confidence in the process,
3 which I think is what your comment went to, John and we
4 heard a lot about making sure that people were competent and
5 I'm interested in any suggestions on what we can do with
6 this panel to make it better.

7 Ironically, when we looked at all the compliance
8 filings there was a sense that the more hard-wired it was,
9 the clearer it was, but yet we heard yesterday that the
10 California process, which is very nuanced and undefined
11 seems to be going beautifully and everyone has confidence in
12 it. So we're learning as we go how these processes work.
13 If there are suggestions you have as to how we can build
14 more confidence in the process and also the two regions that
15 have done effective windows spread that to some of the
16 regions, spread the lessons to the ones that are coming
17 along. I would welcome suggestions from any of you.

18 MR. HURLING: I would agree that hardwiring a lot
19 of the requirements in the tariff is not the way to get to
20 that level of confidence. It may give people a better
21 understanding or the perception of a better understanding
22 going in as to how decisions are going to be made. Really,
23 what we have heard from our stakeholders and what we are
24 endeavoring to pursue is a much tighter degree of
25 communication.

1 We've met with some of the Staff at Cal-ISO,
2 Catalia so about some of the reports that they have put
3 together after their windows and then we're trying to steal
4 some of their ideas there. It's really about, and I
5 mentioned it before in my opening comments, you know,
6 transparency at the front end, people need to understand why
7 you're doing what you're doing. What are all the drivers?
8 What are all of the assumptions?

9 Transparency during the analysis, as you're
10 evaluating the solutions that have been proposed and
11 transparency at the end, so everybody knows why you've
12 picked the solution that you picked and then how they did.
13 We've done well with the first one and I think with the
14 second one, not so well with the third one. That's an area
15 we need to improve. You can give guidance in that
16 direction, that would I'm sure be helpful but adding dozens
17 of tariff requirements, honestly is just going to make the
18 process take longer.

19 We've been tripping with our stakeholders as we
20 go through the analysis. We're constantly getting
21 challenged as to, you know, the tariff says this, how does
22 your analysis line up with that? You're doing this
23 sensitivity, have you done this sensitivity -- yes -- and
24 we've spent months and months and months trying to ensure
25 that we've covered every last requirement. The important

1 point is the communication. Not an endless punch-list of
2 requirements.

3 COMMISSIONER LEFLEUR: Well, thank you for that.
4 That's very helpful. I mean it's always a challenge how to
5 spread best practices without requiring uniformity and that
6 spectrum is hard to gauge. Yes?

7 MR. GULLEY: Yes, thank you. When you talk about
8 competence, I'll just touch on one thing Mr. Hurling said.
9 He talked about results. The more that we can measure those
10 results and go back and look at how we did on specific
11 projects based on what the planning was, what the benefit
12 cost-ratios were, the more I think we're learn from that and
13 the better the process will get.

14 Commissioner Honorable, you talked earlier today
15 about your kids in school and how you'd like to see them do
16 well quarter to quarter. I have a daughter, she's a senior
17 at Kansas State University. She takes exams through the
18 semester and then she takes a final. Well, in order to take
19 a final, in order to do well, she has to go back and look at
20 those past tests and look at those past results on what she
21 needed to learn and what she needed to brush up on before
22 she got to that final.

23 So my message and my recommendation there is
24 let's go back and measure those results.

25 COMMISSIONER LEFLEUR: Thank you. Mike?

1 MR. CALVIOU: Yes, I'll probably just echo the
2 point about transparency. I think it's vitally important
3 that there is really good transparency all the way through
4 the process about what the process is going to be, what the
5 evaluation criteria are and I think it will be the key thing
6 and this is a challenge is trying to ply as much clarity on
7 what it is the evaluation criteria will be.

8 So yes, projects will have different costs but
9 they'll have different benefits and I think we've heard over
10 the last couple of days there are also different ways of
11 structuring projects which inevitably means that actually
12 comparing one project to another is not straightforward. So
13 I am wondering whether there might be some benefit.

14 You don't want to overly constrain an evaluation
15 but at least I think someone suggested earlier today some
16 sort of framework about what is sensible to consider within
17 these competitive processes. So I was getting very
18 concerned about this idea about different ROE evaluations
19 within different projects being bid because you're then
20 asking, RTOs in my opinion, who almost act as some sort of
21 quasi-regulator and take a joke. RTOs are great to assess
22 technical merits, cost effectiveness. Asking them to sort
23 of weigh the different merits or in particular proposals
24 around different ROE and cap structures feels to me as
25 though getting them out of their expertise and overly

1 complicating a very, very complicated assessment process.

2 So I think some sort of clarity over evaluation
3 criteria would be good and some sort of frame work where
4 within this is where we expect to see innovation and this is
5 where innovation is actually unhelpful and overcomplicating.

6 COMMISSIONER LEFLEUR: Thank you. Matthew?

7 MR. HOLTZ: Yes for focus, for the Commission on
8 areas of improvement, really I guess I'd suggest a focus on
9 the identification process. Not necessarily the competitive
10 bidding process after the fact. On the regional side,
11 within MISO, within the market efficiency space there are
12 wide range in futures that lose focus on the current data
13 gap between the market operations and long-term planning
14 with the focus shifting where the market efficiency process
15 on those ranging futures, it tends to mute the system
16 benefits that are better there in current-day operation. So
17 focus on refining that process down to make sure that the
18 RTOs are capturing those system needs currently there and in
19 the known future.

20 Interregionally, there are differing regional
21 processes. I know PJM MISO is even stated as such and part
22 of their interregional process and that we've linked to
23 material there and compared comments. So whatever way we go
24 on the interregional space there needs to be continuity
25 commonality on the modeling. You know, we gave an example

1 on page 9 of, it was originally in our complaint docket, the
2 disconnect between the regional models. This was just on
3 the generation sitting within the models, up to 10 percent
4 difference in model capacity between the two RTOs so not
5 only this, the volume of generation within the model matter
6 but the location and it tends to shift the congestion
7 patterns, so within the model itself.

8 So yes, focus in on the model itself. Getting
9 away from the wide range in futures in the regional space
10 and focus on the different models between the original
11 space.

12 COMMISSIONER LEFLEUR: Thank you. Heather.

13 MS. HUNT: In connection with your question about
14 how to share some experience from region to region. Before
15 New England understood that we were unlikely to see any
16 competitive processes last year we co-hosted a forum with
17 ISO and we went in and invited the other RTOs to come to New
18 England and talk to stakeholders broadly about their
19 experience, really drilling down in sort of case studies and
20 to share, if somebody were pursuing that again, what at the
21 few things that they would recommend doing and avoid doing?

22 We found that to be extremely constructive as did
23 all the stakeholders in the region. So if you're thinking
24 about technical conference on a going forward basis, that
25 sort of sharing of best practices and what to avoid, we

1 found very helpful.

2 COMMISSIONER LEFLEUR: Why do you think the
3 region chose not to use the process that Order No. 1000
4 afforded and just start a parallel process. I mean, what
5 you said earlier, that you chose to plan it a different way.

6 MS. HUNT: Right. And this is in relation for
7 those folks in the room who might not be familiar with the
8 New England path at this point.

9 COMMISSIONER LEFLEUR: I thought it was more
10 choosing generation than transmission, I thought it was
11 that.

12 MS. HUNT: In connection with the half of Order
13 No. 1000 that's about public policy we're in the DC circuit
14 with you now. The basis for that, the legal basis is really
15 at the beginning of the process. I think the Commission
16 intended Order No. 1000 to be a tool that states could make
17 good use of to execute public policies. There was not a
18 requirement that ISO New England would have to select a
19 project per se.

20 At the end of the day, at the end of that set of
21 orders, ISO New England would be the entity that would
22 select what project, at what cost, where would satisfy state
23 public policy objectives. So that's a concern that was sort
24 of a shift. I think the fact that the states have moved
25 forward with, three states have moved forward with an RFP

1 for clean energy projects are the three southern New England
2 States. NESCO assisted with sort of
3 putting that together but it was a three-state effort, not
4 a six state effort. Goes to a fundamental principal which
5 is that at the end of a process, the states want to be those
6 exercising their judgment as to what project moves forward
7 to meet what need and at what cost.

8 COMMISSIONER LEFLEUR: That is all kinds of
9 interesting issues for the markets too, but that's not for
10 this conference. Thank you very much. Omar?

11 MR. MARTINO: Thank you, Commissioner. As an
12 independent power producer, one of the things that we would
13 like to see have more confidence in the process is really
14 for the Commission to consider, to seriously consider and
15 take a look at how to integrate interconnection planning or
16 interconnection generation planning and transmission
17 planning processes together.

18 The second item that I would like to discuss is
19 also the inclusion of market efficiency projects, just like
20 my colleague NIPSCO mentioned earlier, we see a great
21 opportunity to count those included in FERC Order No. 1000
22 and really to take a look at the broader perspective of how
23 to really, seriously deal with the congestion at the seams
24 and how to manage and mitigate that, that congestion. One
25 of the thoughts we have is that we would definitely like the

1 Commission to consider tariff changes. Tariff changes that
2 would dictate or mandate the management of congestion at the
3 seams. No more than that, but also the development of
4 metrics as to how to manage that congestion. One of the
5 biggest issues that we see as an independent power producer
6 in the lack of metrics for congestion management is the fact
7 that the of congestion relief is actually not included and a
8 benefit.

9 So as NIPSCO pointed out earlier in the
10 presentation, MISO has suffered about 6 billion dollars from
11 2008 to 2015 in congestion costs. I can't recall a time or
12 a place where I have actually seen a project that has been
13 developed and implemented at the seams. So the overall
14 message to conclude would be to really have the Commission
15 to include interconnection planning into FERC Order No. 1000
16 and to include a very precise, concrete and deferent
17 process to manage congestions including appropriate metrics.

18 COMMISSIONER LEFLEUR: Thank you. I'm confused
19 by your comment that relieving congestion isn't a benefit.
20 Isn't that the benefit of economic projects?

21 MR. MARTINO: Our understanding, so what I said
22 earlier was that the actual relief of congestion is
23 sometimes not properly accounted for in evaluation of
24 certain projects and therefore that should be itself a
25 metric to consider projects to go forward.

1 COMMISSIONER LEFLEUR: Thank you very much.

2 Thank you all. Norman?

3 CHAIRMAN BAY: Thank you, Cheryl. Tony?

4 COMMISSIONER CLARK: I think I'd like to pick up
5 where Cheryl left off because she, I think she called it the
6 irony where it's something that's been gnawing at me a
7 little bit too and I'm not sure exactly how to get my arms
8 around it so I'm hoping that y'all can help me with that?

9 COMMISSIONER HONORABLE: Did you say y'all?

10 COMMISSIONER CLARK: I think I did. I've been
11 listening to Suskie here a little bit so --

12 (Laughter)

13 And the question is this, maybe this is what it
14 boils down to. How do we actually define transparency?
15 Because we keep talking about it and as I noted the similar
16 irony which is we hear about transparency, we want
17 transparency and yet the two models we keep hearing about is
18 the ones that seem to be kind of generally working and are
19 sort of book ends to the California model which where is a
20 lot of discretion to the ISO and I don't know if it's
21 entirely transparent to me, I just know that it seems to be
22 working for that region, I guess and then the sponsorship
23 model you hear PJM all the time. Which again, the
24 sponsorship model is, maybe it's just my understanding of it
25 but it's a little bit more of a black box in a sense.

1 They're taking all sorts of factors into
2 consideration. But in both cases it's up to the ISO to
3 basically make a call and then justify that call and be able
4 to defend whoever disagrees with it, presumably in front of
5 the Commission. A model that I have heard some disagreement
6 with both prior to this and we had a little bit of it
7 yesterday is some of the more strict, point-based
8 mechanisms and Paul, I don't know if you were here for that
9 part of the discussion but one of the, I think the SPP
10 region was one where you heard that issue come up and I had
11 heard that before.

12 So some of the regions have arguably, I think I
13 could make the case, I'd say very transparent type of
14 process. you get X number of points for this happening and
15 we total up the points and whoever gets the best score wins.
16 That seems very transparent and yet we've heard that maybe
17 that's not as transparent. So Paul, I'll let you chime in
18 and help me understand how we define transparency exactly
19 and what works and what doesn't.

20 MR. SUSKIE: It's a great question though when
21 you get competitive you can't be transparent at some point,
22 at all, because it's a competitive process. I'll go through
23 ours. We have a thousand point allocation ranging from a
24 hundred and I think twenty-five points up to two hundred and
25 fifty points in five categories: Engineering design,

1 construction, operation, finance and then rate analysis.

2 What's the rate impact?

3 So it's in the tariff, it's very broad and that's
4 how it's measured out. We have an independent expert panel
5 that actually, five people, they got in and they scored them
6 and nobody even knew who the panel was that scored them. So
7 we went through the first process and it was enough there
8 for them to judge but after going through the process, some
9 of the stakeholders and competitors say they want a little
10 more detail around it. So I think the detail is there. The
11 question is how much more to add.

12 But when it comes to the actual proposals being
13 submitted, there were only five -- no excuse me, six or
14 seven SPP employees that ever looked at them because that
15 was confidential. We didn't want anything disclosed. We
16 didn't even publicly state who the panel members were and
17 the panel members then revealed themselves whenever Chairman
18 Bay was there when they came to the SPP Board maybe and they
19 presented their recommendation to the Board of Directors and
20 who ultimately made the decision on their recommendations.

21 So part of that, when people switch proposals and
22 is competitive you can't disclose those because a competitor
23 can find out "well, they bid 14 million, well I'll do 13
24 million." So part of it can't be, but the process going
25 through, I think, could always be transparent. I think ours

1 was very transparent. Some just wanted more details as to
2 how they get a better competitive edge I think.

3 COMMISSIONER CLARK: Thanks, sure. Steven?

4 MR. HERLING: Yes, I'll start with transparency
5 is in the eye of the beholder. We have been arguing our way
6 through one particular project for six or nine months now.
7 Every month we have a transmission expansion advisory
8 meeting. Every month we present results and we get a flurry
9 of questions and additional request for information and next
10 month we will bring them back and to me, that cycle of
11 presentation, review, questions, more presentation, that's
12 transparency okay.

13 Having my people sit in a glass room so that
14 everybody can watch them do their work, that's not
15 transparency. That's what some of our stakeholders would
16 probably like, but that's not going to happen. Having a
17 scorecard alone is not transparency. If you get a hundred
18 points for category A, how was the decision to give you a
19 hundred points made? That's transparency. Knowing what the
20 scale was and knowing what your score was is not
21 transparency.

22 So the challenge for all of these models is
23 getting to the level of transparency that the stakeholders
24 are comfortable with so that they understand how the
25 decision was made so the right answer for transparency for

1 SPP is going to be different for PJM, going to be different
2 than CAL ISO, you know it's unfortunately something that we
3 are going to be chasing for a while and everybody has to
4 accept the fact that whatever you think you're doing is good
5 enough; it's probably not.

6 There are going to be things that people need
7 more information legitimately and you just have to do your
8 best to go after that. We're struggling with it but we've
9 been doing the lessons learned exercise for probably a year
10 and a half now and just taking a lot, hearing what people
11 have to say. Taking a lot of input about what we're not
12 doing that they need us to do and virtually all of it is
13 around some aspect of transparency. Getting them more
14 information about how we're doing our job. That's not a
15 real complete answer but it's more of an amorphous kind of a
16 thing.

17 COMMISSIONER CLARK: Yes, Donald.

18 MR. GULLEY: Yes. Thank you. As one of the
19 beholders, I like what this guy is saying. Yes, we do need
20 to get it down to a level that I can explain in my
21 boardroom. It's not necessarily about just the transmission
22 and just the congestion improvements. It goes down to the
23 market participant level. As an owner of generation in that
24 market, changes in transmission also affects our
25 generation, in terms of environmental controls, in terms of

1 fuel, there are many more impacts that we have associated
2 with transmission development. We can do the
3 analysis but we need the inputs and the information to be
4 able to get it to that level so that we can discuss and
5 describe what that impact to us is at the bottom line level.

6

7 COMMISSIONER CLARK: Thanks. Mathew and then
8 John.

9 MR. HOLZ: This was probably transparency, having
10 more metrics up front around the project need, really
11 focusing in on that connection between market operations
12 driving the need for transmission projects or even the model
13 and future impacts, the CPP or with the MISO NBP portfolio.
14 There is a transparency up front and drivers. You could see
15 it in the analysis and it helped kind of quell any issues
16 with the results. Is there consensus across the MISO
17 footprint on MVPs.

18 There's still some that may not see the full
19 benefit but it certainly has helped to bridge that gap and I
20 know Omar had touched on it earlier too about having those
21 metrics in place to identify where those bottlenecks in the
22 system really hurt the customers and the power producers and
23 those metrics are available if the RTOs are operating our
24 markets. The metrics are there, it's just a matter of
25 rolling out and using them.

1 As far as the selection process, probably need
2 some more time to see how it plays out. No experience in
3 the PJM side with the sponsorship model already. MISO is
4 going through it now for the first time with the Duff
5 Coleman so perhaps an additional experience seems to be had
6 on the different models first before exploring it.

7 COMMISSIONER CLARK: John.

8 MR. LUCAS: So Commissioner I think it's a very
9 tough question, I guess one I didn't fully appreciate until
10 I got here yesterday. If you think about transparency it
11 was back in the Order No. 890 principles I'm sure. I mean
12 it started there and Order No. 1000 just expanded on it. My
13 sense is, and Paul touched on it, when you get into a lot of
14 competitive proposals and people want to know well how did
15 you arrive at your decision on those proposals? That's just
16 tough. I don't think you can crack a one-size-fits-all fix
17 on transparency.

18 I think you've got to rely on the regions as
19 they've all sort of implemented this in a bit of a diverse
20 fashion. Rely on those regions to work with their
21 stakeholders and get it to a point where nobody feels like
22 they need to come up here to FERC and sit in front of an
23 administrative law just to settle that. They would rather
24 do it back in their region. To me, I don't have a fix, but
25 I just think it will naturally, it will come to a

1 settled-out spot as we have more experience with these
2 processes.

3 COMMISSIONER CLARK: Omar?

4 MR. MARTINO: Thank you, Commissioner. I would
5 like to respond to the question slightly different from my
6 colleagues on the panel. The way that I would approach the
7 response is essentially to have a view, an overview, an
8 understanding of some of the fundamental reasons that things
9 are actually not being conducted at the RTO level, that we
10 feel that should be under Order No. 1000.

11 One of those things is, for example, the metrics
12 definition. I am not going to touch upon that again but an
13 interesting idea is also the non-transmission solutions or
14 non-transmission alternatives, NTS or NTAs. There has been
15 you know, several comments submitted for the utilization of
16 technique such as dynamic line loadings or PMUs which are
17 phaser measurement units or even innovative ideas were are
18 available today in the marketplace such as high temperature
19 conductors which essentially are what I would like to call
20 you know, very low hanging fruit solutions to potentially
21 major transmission problems including the relief of
22 congestion so when I see that there are, some of these
23 alternatives are available today in the market.

24 The technology exists, it's actually being
25 utilized ad hoc in the strip-miners but when it is not under

1 an umbrella under a constant or standard utilization that's
2 something that really indicates to us that the process is
3 not you know, very transparent and we'd like to see
4 improvements in transparency regarding the utilization of
5 non-transmission solutions and non-transmission
6 alternatives in both the regional and interregional level.

7 COMMISSIONER CLARK: Thanks. Just one, I think
8 this probably falls under the category of observation but if
9 anybody wants to comment on it, feel free. Although this is
10 really more Western related and this is kind of sort of an
11 Eastern interconnection-heavy panel, but it's this. We've
12 had a fair amount of discussion about the California model
13 being fairly widely accepted within California. I do
14 wonder, in getting to your question, Cheryl, about
15 transferability between regions how much of that can be
16 applied to other reasons for this.

17 I wonder how much of the success of that model is
18 related to basically a single state ISO, one retail
19 regulator, a state with very strong sort of public policy
20 choices that simply says, this is the direction that we're
21 going in. How much of that enables ISO to have some of that
22 success and if a broader regional market begins to develop
23 in the West if we won't start to see some of the same
24 concerns that we see in more multistate, broader regional
25 regions of the country that doesn't really have anything to

1 do with that particular ISO, it just has to do with that
2 model. It has to do with the characteristics of the
3 single-state ISO. Steve.

4 MR. HERLING: At least the proposal process that
5 they used, approach that they used I think is transferable.
6 We've looked at it very closely, depending upon how well we
7 fair and moving forward with our process. That is clearly
8 an alternative where you do a lot more of the planning
9 toward one solution up front and then you take a different
10 approach to selecting the party that's going to build the
11 project. The success of that, yes, maybe in California the
12 success of that is a function of their relationship with the
13 state but I think that with the core model it's
14 transferrable. It's a fundamentally different approach to
15 you know, how you pick the best, most effective project and
16 then how you go about selecting the builder.

17 COMMISSIONER CLARK: Yes. Thank you.

18 CHAIRMAN BAY: Thank you, Tony. Collette?

19 COMMISSIONER HONORABLE: Thank you, Mr. Chairman.
20 Thank you all. Hang in there, we're nearing the end and to
21 all of the folks who get a gold star for hanging in there
22 all day. I have to find some gold stars so you can come and
23 get one if you like. I want to switch gears a little bit
24 and talk about something that I've heard about as being a
25 concern and we have quite a few of you who are very

1 experienced in different stages of planning and that is
2 voltage thresholds so my perspective is clearly very
3 different. I'm a state, former state regulator now, Federal
4 regulator that has been a stakeholder, if you will in the
5 transmission planning and cost allocation process.

6 I've understood that at times, I hate to use the
7 word gaming because it's a very strong word to use but do we
8 at times see an effort to attempt to broaden the benefits so
9 that we can share the costs among a number of different
10 areas or conversely a lowering of the voltage threshold to
11 keep projects local. That's a powerful question at the end
12 of the day. A loaded one I'll say. Lots of tin cards.
13 Okay Michael, we'll start with you.

14 MR. CALVIOU: Yes, I think it's clearly a
15 question that applies in both cost allocation and in terms
16 of where you apply competition. Certainly in New England
17 where we have a pretty well-defined definition of what's
18 regional, what's local, we still do that. Regional has
19 regional cost recovery, cost allocation. Local is just
20 recovered by the local transmission company's customers.

21 However you then get some local projects which
22 then have components which have some regional benefit and
23 normally they would go into a sort of regional cost
24 allocation that some component that's you've got the issue
25 about well we have to apply that little bit. We might have

1 to be completed even though, given all the comments earlier
2 about competition, how do you make sense of the small
3 projects. It wouldn't make sense.

4 So I think there's some issues there. I think
5 you know, broadly regional cost allocation is right and
6 focusing the applicability of competition on those
7 particular regional projects doesn't make sense. There will
8 clearly be issues that sort of at the margins. I do support
9 things where below you know, whether it's 200kb or something
10 like that, the small scale local stuff is kept more for
11 local transmission companies too and is kept out of
12 transmission for reasons that have been discussed earlier.

13 COMMISSIONER HONORABLE: Don.

14 MR. GULLEY: You're probably surprised I was
15 going to answer this question, aren't you? I'm going to
16 flip the switch and go to my TO and put on my transmission
17 owner hat and I can tell you from a local perspective, we
18 build for reliability, reliability only. So we keep the
19 costs within our own zone and only our members are paying
20 those costs. So we're very concerned about what those costs
21 are so we look at projects strictly from a reliability
22 perspective. We're not looking at it from the perspective
23 of a ROE or spreading costs to other people. It's all about
24 the end of the day. It's all about the rates.

25 COMMISSIONER HONORABLE: And your members.

1 Absolutely. Please.

2 MR. HERLING: Yes, I would say you know, based on
3 the way our planning process works our transmission owners
4 you know, don't have the ability to try to drive a project
5 down to a lower voltage to keep it local, or to a higher
6 voltage to foist the cost on someone else. On Order No.
7 1000, really ensures that can't happen as is with my views.

8 COMMISSIONER HONORABLE: It should ensure that.
9 So that's really my question.

10 MR. HERLING: It certainly does because if the
11 transmission owner tries to drive a project up to 500kb so
12 that a portion of the cost will be shipped off to somebody
13 else, another party, a non-incumbent will come in with a
14 proposal and we will have to evaluate the two and show that
15 one is the better project. If we believe the 500-KB project
16 is the better project, that's what we're going to run with.
17 Not because we're trying to drive the cost allocation but
18 it's the better project.

19 You know, PJM we try to avoid any use of cost
20 allocation and I know some people are not happy with us
21 about this but we try to avoid the use of cost allocation in
22 deciding what is the right project to build.

23 COMMISSIONER HONORABLE: What needs to be built.

24 MR. HERLING: What needs to be built is based on
25 the drivers and the analytics of comparing all of these

1 different proposals. I think Order No. 1000 should prevent
2 the ability of any party to force a project in one direction
3 or the other for their own benefit.

4 COMMISSIONER HONORABLE: Matthew.

5 MR. HOLTZ: First, I know this was an issue in
6 our compliance in EL13-88 so we do appreciate the order on
7 eliminating the whole structural in MISO PJM JOA. As far as
8 the voltage thresholds in general, it really has less to do
9 with the actual voltage itself and how the systems connect
10 and how it operates. So for example in the NIPSCO system,
11 we have along the southern part of Lake Michigan, Northern
12 part of our territory, we have heavy industrial customers so
13 it requires a robust system. It's 138KB lines connected and
14 parallel with 345-KB lines, all connected and parallel with
15 PJM 765-KB line.

16 That whole system works together to move power
17 through the NISPCO footprint. So I doesn't matter in
18 voltage there. The eliminating element along that path are
19 138-KB lines on that system so you have a 138-KB project --
20 they freeze up that higher voltage system to move more
21 economic power. Other parts of our system are focused on
22 serving loads so we have 130-KB lines in towns and rural
23 areas where there's less impact to the overall grid. So it
24 has really nothing to do with the voltage itself. It's just
25 how the systems are connected together.

1 COMMISSIONER HONORABLE: John.

2 MR. LUCAS: Commissioner, I've thought about it
3 in the context and I don't see a gaming opportunity with
4 respect to the voltage levels at least among the SERTP
5 sponsors, and I think that's attributable to the Commission
6 tightened those thresholds pretty good in the compliance is
7 what I think. I think they are at a pretty base level now.
8 You drive that lower and I think you're going to frustrate
9 the timing and the whole process in trying to get more
10 projects to address those lower voltage type items.

11 COMMISSIONER HONORABLE: Omar?

12 MR. MARTINO: Thank you, Commissioner. We think
13 that it is very important to ensure that the Order No. 1000
14 does in fact include lower voltage KB transmission and that
15 is really fundamental for a number of different reasons.
16 The first reason is because it is really cost-effective to
17 upgrade a lower-voltage KB transmission line is
18 cost-effective as compared to potentially building a much
19 more significant transmission line. Not only
20 cost-effective but it also has a good impact on either the
21 environment ratepayers but the utilization of existing
22 right-of-ways. You don't have to enhance additional
23 right-of-ways to actually build new transmission.

24 But it's also very important to actually develop
25 the metrics to ensure that low voltage KB voltage lines are

1 actually included in the order. The other point I want to
2 emphasize why this is important to include the low voltage
3 KB transmission is to point to a very specific example
4 within the MISO and PJM seams. Most of the congestion
5 actually happens at the low voltage KB. So exclusion of
6 those, which is probably actually happening today, is one of
7 the fundamental reasons there's actually no planning
8 development or transmission development to mitigate the
9 congestion because those voltages are simply not included.

10 To conclude, I do want to point out that the
11 fight of these transmission upgrades had been excluded, lead
12 to a group of generators in MISO including EDFRE to actually
13 find around 60 million dollars of transmission at the seams
14 and that's the only project we are aware that have actually
15 been triggered to actually mitigate congestion and we feel
16 that process, the actual funding by generators because both
17 MISO and MPJ failed to identify and to implement the
18 appropriate measures, is unjust, is unreasonable and is
19 definitely something not that the Commission should allow to
20 continue by enforcing the including of low-voltage KB
21 projects under FERC Order No. 1000.

22 COMMISSIONER HONORABLE: Thank you and I did read
23 that point in your written comments. I think you did
24 reemphasize that here today. Thank you for sharing that
25 perspective. Thank you all.

1 CHAIRMAN BAY: Thank you, Collette. So I was
2 struck by the comments of Paul and Steve in that there may
3 be some projects where the cost benefit analysis does not
4 justify the projects being put through a competitive
5 process. I'm wondering whether any of the other panelists
6 have any concerns with some sort of cutoff in recognizing
7 that the devil's in the details and you have to figure out
8 what that criteria are but whether conceptually the other
9 panelists have any concerns with trying to perhaps exclude a
10 certain category of projects from a competitive process?
11 Matthew?

12 MR. HOLTZ: The thing that comes to mind when you
13 get to a point where the project's been identified and the
14 reliability window is baseline reliability project,
15 typically it's within a short time-period. So a lot of it's
16 just on time of execution to make sure upgrades get in
17 place. Prior to the date of the need. There is little
18 greenfield in baseline reliability projects that should be
19 kind of few and far between but those were the only ones
20 that I could think of that you know, there is that clock you
21 are working against and if you have to go through a
22 competitive bidding process, it could slow it down. You
23 could miss your date.

24 CHAIRMAN BAY: Heather?

25 MS. HUNT: I don't think the six New England

1 States have an interest in competition for the sake of
2 competition. We'll talk about that and put something in
3 comments to you as a follow up. I will say though that if
4 there is a way to try to capture the sort of directional
5 benefits you were seeking to capture through competitive
6 processes and find a way to apply those to projects that
7 aren't subject to competition and that is the allocation of
8 risk for first day of cost overruns and so forth. That
9 would probably stop in any concern with excluding certain
10 projects from competition.

11 CHAIRMAN BAY: Steve?

12 MR. HERLING: Obviously our planning process
13 drills down through every tariff facility so we will have
14 upgrades of 115-KB disconnects which end up in the RTO. If
15 a project is only going to cost a hundred thousand dollars
16 to implement, what possible savings could there be to
17 customers if we ran that through a competitive solicitation
18 and would it justify the kinds of costs that I think Paul
19 was talking about before, and he was talking about a
20 multimillion dollar project that half of the cost was eaten
21 up by, well not eaten up by, was spent by the various
22 participants to make the bids and exercise the process.

23 If the goal of Order No. 1000 or one of the goals
24 of Order No. 1000 is to save money for customers we should
25 be looking for the projects where there is at least a

1 reasonable opportunity to accomplish that. Our focus I
2 think would be better directed at those projects than at the
3 small stuff where at the end of the date, it's going to be
4 reserved for the transmission owner anyway and there will be
5 no benefit of having gone through that process.

6 CHAIRMAN BAY: Have you been thinking about a
7 dollar cutoff, or what time of criteria have you been
8 considering? Paul mentioned several that SPP has been
9 talking about or considering.

10 MR. HERLING: Yes. We have not been specifically
11 looking at a dollar threshold but looking at groups of --
12 you know we've been running the RTP for 16 years so we have
13 a lot of experience with categories of projects where after
14 doing it hundreds of times we can show this project, 99.4
15 percent of the time ends up with a small upgrade to the
16 transmission owner. So we're looking at categories.

17 CHAIRMAN BAY: Sounds like the metrics that Don's
18 been talking about. Don?

19 MR. CULLEY: Yes, thank you very much. That's a
20 very good question, a very tough question to answer as well
21 because it's going to be, I know it when I see it. I would
22 recommend that the Commission look as we continue down the
23 line here with future technical conferences, that we look at
24 some sort of screening process. That would help me feel
25 more comfortable with the process as it's going forward and

1 certainly with the people that are out there on the end of
2 the line that are paying for this development.

3 I would look to the experts to help us. Those
4 that have done and gone through this process many times to
5 help us define what those screening criteria are or what
6 they can be and then look for some form or some framework of
7 cutoff early on in the process. ultimately, if it helps
8 save money, that's the right step to take. Thank you.

9 CHAIRMAN BAY: Michael.

10 MR. CALVIOU: Yes, I think some sort of cutoff
11 does make sense. I suspect the detail of that could
12 probably be left to some sort of regional development and
13 regional state processes. I'm not sure one size fits all
14 for the whole of the country. Certainly the time point I
15 think is important. I think there will be projects that are
16 reliability driven. Competition does add on timescale onto
17 the transmission project development timescales so I think
18 having the ability to do projects which they need a three
19 year horizon just to get on and do them, I think is
20 important.

21 Something around the size of projects, whether it
22 should be a dollar, dollar cutoff or something else as Steve
23 was talking about makes sense. In New England, we used the
24 Regional West Local as a cutoff and that does seem to work
25 quite well.

1 CHAIRMAN BAY: Well, thank you and colleagues,
2 any closing remarks, other questions? Cheryl?

3 COMMISSIONER LEFLEUR: I don't have other
4 questions. I just wanted to thank everyone who has
5 participated over the last two days and all the folks on
6 Staff who flipped this together, to say nothing of who
7 worked on Order No. 1000 for the last six years. It has
8 definitely satisfied the objectives I came in with, which
9 was to really think about how the competitive process is
10 going, how it fits with our ratemaking and incentives, ways
11 that we might need to give more guidance to make sure that
12 Order No. 1000 was delivering the value to customers that
13 it's supposed to be delivering.

14 I really appreciated the conversation on
15 interregional and where we go with that. I'm not going to
16 lie that I have a proclivity toward action just because of
17 the time it takes to do anything. I generally have a
18 proclivity to start. Very interesting in hearing from
19 people who are not on the panels, including answers to any
20 of the questions I posed. Thank you very much.

21 CHAIRMAN BAY: Thank you, Cheryl. Tony?

22 COMMISSIONER CLARK: Thanks to everyone for being
23 here. Cheryl, with regard to your comment with how long
24 things take, I was observing during one of the panels
25 related to transmission incentive rates that I joined the

1 Commission just in time to be recused from the initial
2 policy statement because I had some recusals that were
3 pending at that time and depending on how long this takes I
4 may be off the Commission before we get to it so I feel like
5 I'm in a really good spot. Whatever happens I can complain
6 about it in a future life and be guilt-free.

7 CHAIRMAN BAY: Thanks Tony. Collette?

8 COMMISSIONER HONORABLE: Thanks Mr. Chairman and
9 thank all of you. When he mentioned that Tony and I kid one
10 another, we've known each other for quite a while, I told
11 the Chairman that we should hurry up and do something else
12 so that Tony can endure this experience with us and have
13 something to leave with. I want to thank all of you because
14 I know that you haven't just gone through the motions. You
15 didn't just show up here today to come sit in a chair and
16 read something then go back to your respective places.

17 I really feel better educated about what's
18 actually happening in the industry with regard to our
19 collective effort to build the transmission that we
20 absolutely need for whatever reason. I think we've already
21 headed in that direction, if we get the Clean Power Plan we
22 absolutely need to be ready for that and for all of the
23 other challenges that you all are facing coast to coast, we
24 are facing them all together and as much as the mix is
25 changing so dynamically and so many things are happening at

1 the local level that are really intersecting robustly with
2 regional processes.

3 So there couldn't be a better time than the
4 present to explore these issues together. I think we've
5 challenged one another too in the panels that we've seen. I
6 think that we will grow together through this experience and
7 be open to moving in ways that ultimately benefit consumers.
8 Again, that's where my focus will be.

9 I want to thank those of you in particular who
10 participated or filed comments with regard to the
11 interregional planning effort. That's a very hard, hard
12 topic for all of us and when Carl Monroe was speaking and
13 spoke of the very long thing with MISO I felt some level of
14 guilt having been one of the state regulators who approved
15 the integration into MISO but he was very gracious and
16 didn't mention that point.

17 (Laughter)

18 I look forward to working with you more
19 importantly. I do feel optimistic because we are all so
20 committed to this work, nothing but good can become of this
21 and I truly believe that. So thank you, I look forward to
22 your post-technical conference comments and Steve Gaw, we're
23 going to get you and John escorts out of here. You talk
24 about more technical conferences. John mentioned something
25 about cost containment so we will get both of you escorts on

1 the way out. Thank you all.

2 CHAIRMAN BAY: A big thanks to our panelists and
3 to Staff for this very, very informative and helpful
4 conference. Thank you.

5 (Whereupon, at 4:24 p.m., the conference was
6 adjourned.)

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CERTIFICATE OF OFFICIAL REPORTER

This is to certify that the attached proceeding
before the FEDERAL ENERGY REGULATORY COMMISSION in the
Matter of:

Name of Proceeding: Competitive Transmission
Development Technical Conference

Docket No.: AD16-18-0000
Place: Washington, D.C.
Date: Tuesday, June 28, 2016

were held as herein appears, and that this is the original
transcript thereof for the file of the Federal Energy
Regulatory Commission, and is a full correct transcription
of the proceedings.

Official Reporter

1 FEDERAL ENERGY REGULATORY COMMISSION
2 COMPETITIVE TRANSMISSION DEVELOPMENT TECHNICAL CONFERENCE
3 Docket No. AD16-18-000
4 June 28, 2016
5 9:00 a.m.
6 888 First Street, NE
7 Washington DC 20426
8 Commission Meeting Room 2C
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- 1 Speaker List
- 2
- 3 Norman C. Bay-Chair
- 4 Tony Clark-Commissioner
- 5 Colette Honorable-Commissioner
- 6 Cheryl A. LeFleur-Commissioner
- 7 David Tobekin-FERC
- 8 Peggy Bernardy
- 9 George Dawe
- 10 Paul Dumais
- 11 Joseph Nachmias
- 12 Raja Sundararajan
- 13 Lawrence Willick
- 14 John Buechler
- 15 Jennifer Curran
- 16 Gary DeShazo
- 17 Maury Galbraith
- 18 Steve Gaw
- 19 Dennis Kramer
- 20 Robert McKee
- 21 Carl Monroe
- 22 Angela Weber
- 23
- 24
- 25

1 P R O C E E D I N G S

2 CHAIRMAN BAY: Good morning everyone. Please be
3 seated. We'll go ahead and get started. One housekeeping
4 announcement, there are copies of the revised agenda in the
5 back of the room and so please feel free to pick one up.

So

6 this morning we will start with Panel 3, the Transmission
7 Incentives and Competitive Transmission Development
8 Processes. I want to thank all of our panelists for being
9 here today and I'll get started with Lawrence from LS

Power.

10 MR. WILLICK: My name's Lawrence Willick. I'm
11 with LS Power. We'd like to thank the Commission for
12 continuing its effort in implementing and improving Order
13 One Thousand and for allowing us to participate in this
14 technical conference. LS Power doesn't see a direct link
15 between FERC's incentive policy and competitive processes.
16 We find transmission to be an attractive investment under
17 traditional cost and service rate regulation.

18 We find it attractive enough to be aggressively
19 competing, taking on additional risk, providing ratepayer
20 benefits through mechanisms like caps and we do that in
21 order to earn the right to undertake a cost of service
22 investment opportunity. So the other side of the coin is
23 that a winner of a competitive process shouldn't have any
24 different rate treatment including less access to the Order

25 679 incentives. Non-incumbent transmission developers

1 undertaking a transmission project face at least the same
2 risks as a traditional utility. In the simplest
3 example is abandonment recovery. The ability to receive
4 abandonment recovery in the event a project is cancelled
for
5 reasons beyond the developers control is equally applicable
6 to a non-incumbent utility looking to undertake investment
7 and the same is true for the other incentives. There
8 shouldn't be any different treatment for a competitive and
a
9 non-competitive project. Certainly the winner of a
10 competitive project shouldn't be penalized for creativity
or
11 taking on more risk.

12 So this should only be the case if a developer
13 voluntarily agrees to forgo incentives as part of its
14 proposal. So if as a concession and a proposal a developer
15 agrees not to pursue certain incentives and obviously they
16 wouldn't apply. Overall the Commission's transmission rate
17 policies drive the level of competition to the extent
18 changes in policy serve to make transition investment or
19 opportunities for transmission investment less attractive,
20 there'll be fewer competitors and less robust competition.

21 So the Commission should continue its efforts to
22 encourage transmission investment and create more
23 opportunity for investment by non-incumbent developers to
24 attract robust competition. Thank you.

25

MR. SUNDARANAJAN: Thank you Commissioners and

1 thank you Mr. Chairman. From AEP's point of view, we
2 fundamentally believe that the Order 679 in 2012 policy
3 statement was created prior to the Order One Thousand
4 happened and we believe that the incentive policies are in
5 certain cases might not be well-suited doing for the
6 competitive transmission development model. One of the
7 examples that it's not well-suited is a specific aspect of
8 timing.

main

9 We think that the solicitation windows in the
10 competitive process happen especially in the sponsorship
11 model where you have four months to actually come up with
12 the idea and submit the bid. In that case, having clarity
13 on incentives would go a long way for the developers to
14 tailor the bids and take upon the risks that reflect the
15 nature of the project.

has

16 The second thing, and the Commission actually
17 recognized this issue with respect to the difference
18 between
19 the incumbents and non-incumbents and are awarded to
20 developers in certain cases, the hypothetical cap structure
21 and the ability to recover reg assets as part of their
22 internal ratemaking. But however I think the next step the
23 Commission can go is the designation of non-ROE incentives,
Commission
equipment abandonment, having a framework for the

24 to provide clarity on what projects would be authorized for

25 equipment abandonment so that the developers as they come

up

1 with the proposals both in the sponsorship model or in case
2 of the competitive bid model can in our opinion would
3 provide clarity for them to adequately reflect on their
4 bids.

5 In our opinion that would go a long way in terms
6 of solving the timing issue and we would actually urge the
7 Commission to see if it can provide, if there is some way
8 whether it's respect to dollar threshold, with respect to
9 the threshold, that the developers can know in advance what
10 kind of incentives would be eligible especially the non
11 incentives before they can tailor the bids.

12 MR. NACHIMAS: Good morning Chairman Bay and
13 Commissioners. Thank you for the opportunity to be here
14 today. I'm Stuart Nachmias, President of New York Transco,
15 a transmission developer formed in 2014 to participate in
16 the New York ISO Public Policy Planning Process.

17 We now own the first new transmission built in
18 New York in the past 20 years, put in service on June 1st
19 and collecting its revenue requirement through the NISO
20 Tariff. I will first discuss challenges with
21 cost-containment provisions and then suggest a method to
22 encourage the prize stated yesterday by President Mroz
23 which is to achieve cost-consciousness or effective
24 management using the Commission's incentive policy.

25 Cost-containment provisions can be useful for

1 transmission investment and project management. As said
2 yesterday, what regulator can say no? however, if not
3 adequately defined, they could undermine the Commission's
4 objective of encouraging transmission development. As
5 discussed they're not always comparable and have many
6 off-ramps. As a result a firm cost-guarantee is not firm.
7 It oversimplifies the process of investing and developing
8 transmission, presents risks to both customers and
9 developers and potentially requires the RTOs and ISOs to
10 become an economic regulator, a position that the
Commission
11 can and should fulfill.

12 Moreover, transmission innovation should be
13 encouraged as much as cost to bring long-term benefits to
14 customers and as discussed yesterday, this is particularly
15 an advantage of the sponsorship model, which is the model
16 used by the New York ISO. So what's the solution or
17 alternative that can work? Let the ISO or RTO focus on
18 capital costs as PJM indicated yesterday. The Commission
19 can continue to use its ratemaking and incentive policies
to
20 encourage developers to properly manage their transmission
21 projects rather than have the ISOs or RTOs decide on cost
22 caps and their various exceptions.

23 Appropriate returns should be the tool for
24 encouraging effective cost management, a performance-based

25 incentive if you will. Appropriate ROE should be granted

1 recognizing the risks that the developer is taking on by
2 participating in a competitive transmission process. If
the
3 project comes in on budget, the developer would earn it's
4 ROE plus incentives. If under-budget there should be the
5 potential to consider additional incentives for lower total
6 costs and if over budget the total ROE could be reduced
7 with ROE deductions for the overspend amount.

8 In any case, all prudently incurred costs would
9 be recovered. This proposal would support developer cost
10 commitments and recognize development management oversight,
11 meet investment requirements and customer benefits and the
12 need to establish a positive track record to effectively
13 compete and competitive transmission process and it's
within
14 the Commission's current authority to implement.

15 On the other hand, the required write-off of
16 legitimate prudently incurred cost while it may sound good,
17 will have long-term unintended impacts and could chill
18 future transmission development. Thank you. I look
forward
19 to your questions.

20 MR. KELLIHER: Good morning, I'm Joe Kelliher
21 with NextEra representing NextEra Energy Transmission a
22 subsidiary of NextEra Energy. FERC elected to promote
23 competition in the transmission projects in Order One
24 Thousand because it recognized that competition can help

25 control costs and create innovative solutions. But in our

1 view there's a disconnect between the Commission support
2 group competitive regional projects and it's rate policies.

3 It's important to recognize that there's not a
4 level playing field on competitive projects and incumbents
5 enjoy substantial advantages. Some of these advantages can
6 be addressed by the Commission, others are beyond its
7 jurisdiction. New entrants have turned to cost containment
8 not because they love risk but because they prefer winning
9 to losing and they would like to offset some of these
10 advantages and establish a more level playing field.

11 In my view, a competitive process that places a
12 premium on costs and properly credits cost containment will
13 be a much more effective check on cost than any kind of
14 prudence review. The threshold question is whether the
15 Commission wants to encourage cost containment and
16 specifically whether it wants cost containment proposals to
17 include or exclude ROE. Currently competitive transmission
18 companies confront the prospect of receiving the lower of
19 negotiated or litigated ROE.

20 If that has not changed it should be expected
21 that cost containment proposals would start excluding
22 negotiated ROE and simply rely on litigation. I'd like to
23 pose some options to try to avoid that outcome. First, the
24 Commission could establish a presumption that ORE in a
25 cost-containment proposal is just and reasonable for policy

have 1 reasons. The course of recognizing the Commission does
2 the discretion of Park and DC Effman methodology when
3 setting rates.

4 Second, the Commission could establish a new ROE
5 adder for cost-contained bids. The Commission has
6 discretion to establish ROE adders for policy reasons that
7 are separate from DCF Analysis such as RTL Membership adder
8 and base ROE would be set using the usual DCF methodology.

9 Third, the Commission could establish a new
10 standard initial ROE for all new competitive projects by
11 competitive transmission companies. The Commission has set
12 standard initial ROE for gas pipelines for 20 years and
that 13 policy has been very successful.

14 Fourth, the Commission could provide that a
15 cost-contained bid receive a base ROE on the high end of the
16 zone of reasonableness, reflecting the assumption of risk
17 that directly benefits transmission customers.

18 And finally a longer range options could be to
19 develop a different proxy group for competitive
transmission 20 companies than for traditional state regulated utilities
21 given the different risk profiles of the two classes.

Thank 22 you very much for your attention. I look forward to your
23 questions and answers.

24 MR. DUMAIS: Commissioners and FERC staff, good
25 morning and thank you for the opportunity to participate in

1 Panel 3. My name is Paul Dumais and I am Director of FERC
2 regulation for AVANGRID. AVANGRID results from the merger
3 of the former EPATROLLER USA with United Illuminating. We
4 own electric and gas delivery companies in New England and
5 in New York as well as extensive renewable generation
6 facilities throughout the United States.

7 AVANGRID is currently participating in
8 competitive transmission solicitations in New England and
in
9 New York and my remarks support the continued use of
10 incentives to encourage the development of competitive
11 transmission projects. Granting of incentives by FERC has
12 had its intended effect in New England. Transmission
13 projects that address reliability needs have been build and
14 are still being built. They've eliminated congestion that
15 was costing customers hundreds of millions of dollars per
16 year and are resulting in a reliable transmissions system
17 that positions New England well for the future. The need
18 for incentives does not go away with competitive
19 transmission processes.

20 Developers of winning proposals will need to
21 attract capital given the risk of transmission development.
22 Though the base ROE must provide returns to enable the
23 utility to maintain and support its credit and raise needed
24 capital, risk-reducing incentives and incentive ROEs can

25 provide added support to address the risks inherent in
these

1 larger competitive lead procured projects and they should
2 apply to both incumbents and non-incumbents alike.

3 One new risk in the competitive environment
4 results from cost-containment mechanisms such as
5 construction cost caps or fixed revenue requirements which
6 we have been talking about for the past through yesterday.
7 While these costs assurances may be attractive and
8 encouraged, they add risk to the transmission developer.
9 While the developer may offload some of this risk to
10 customers through car routes or to third parties, the
11 Commission should continue to consider risk-reducing
12 incentives and incentive ROEs to address the risk and
13 complexity of a project including the added risk of
14 cost-containment proposals.

15 The Commission should not make incentive ROEs
16 conditioned on the level of the base ROE. That was one of
17 the questions that was in the agenda and also upon a
project
18 being selected in a competitive process. A transmission
19 developer would apply to FERC for the desired incentives.
20 FERC should not predetermine incentives as different
21 projects could warrant different incentives. Thank you for
22 the opportunity to provide these comments.

23 MR. DAWE: Good morning. I'm George Dawe with
24 Duke American Transmission Company. You have my written
25 comments so I'd like to touch on certain trends that are

in 1 going on in the development space. First, new developers
2 development partnerships have emerged to compete for the
3 projects that were heretofore reserved for local utilities.
4 These developers are assuming unprecedented risk in capital
5 deployment by submitting project proposals that require
6 resource commitments earlier in the project lifecycle and
7 without the certainty of FERC-approved incentives or rate
8 treatments.

9 Second, competitive proposals involving
10 constrained timeframes, unique engineering solutions and
11 efficient land acquisition strategies require complex
12 contracting and procurement strategies. Developers rely on
13 many of the same construction firms, environmental
14 consultants and engineering firms to develop these
15 proposals. Competition for these limited resources
16 introduce another layer of risk and presents opportunities
17 and challenges for those involved.

18 Third, many of the competitive proposal
19 evaluations and comparative analyses conducted by RTOs have
20 resulted in controversial determinations, raising questions
21 about the transparency and subjectivity of the
22 administration of these processes. Confidence in the RTO
23 evaluation process is of utmost importance if developers
are 24 to continue putting development capital at risk and

25 competing for development opportunities.

entity

1 We believe that without a greater certainty for
2 developers or value to customers to expand the role of the
3 independent market and monitor or another independent
4 in each region to include responsibilities to process,
5 improvement, competitive proposal evaluation and ultimately
6 variance analysis in situations where there are cost and
7 schedule overruns. At a minimum, the Commission should
8 direct the IMM to audit the ITO evaluation process at the
9 conclusion of each competitive solicitation. From our
10 perspective, truly independent evaluation is the only way
to
11 ensure competitive processes are fair, consistent and
12 transparent.

13 Finally, as cost has become a primary selection
14 factor in competitive solicitations, cost containment
15 appears to be the new normal. Cost containment was not a
16 consideration when the Commission issued order 679 in 2006
17 or its policy statement on transmission incentives in 2012
18 so there is a great deal of uncertainty about the
19 utilization and Commission approval of transmission
20 incentives as competitive processes are being implemented.

21 Based on these trends, we advocate for the
22 Commission to provide additional guidance such as through
23 issuing a policy statement to provide much needed clarity
24 with respect to cost containment provisions and the use of

25 incentives and rate treatments. Without greater clarity,
we

1 believe there is risk that fewer developers will
participate
2 in the processes going forward. Thank you and look forward
3 to your questions.

4 MS. BERNARDY: Good morning. I represent the
5 California Department of Water Resources which stores and
6 delivers water to over 24 million California residents and
7 irrigates nearly 700,000 acres of highly productive
farmland
8 in California's Central Valley. Back in 1961, President
9 Kennedy visited Central Valley to attend the groundbreaking
10 ceremony for the San Luis Reservoir and Hydroelectric Dam.
11 The assumption at that time and an important basis for the
12 voters' approval of the state water project was the
13 expectation that power revenues would offset in part the
14 costs of providing water.

15 Today, our water users are spending close to 25
16 percent of project costs on power. The transmission costs
17 are nearly half of that. Instead of using power revenues
to
18 offset the cost of water, California water users are paying
19 a high cost for the power to move the water. Indeed, the
20 transmission access charge has tripled since 2008.

21 DWR is very concerned about these costs and the
22 burden on California water users and is very grateful to
the
23 Commission for turning its attention to this important

24 topic. DWR urges the Commission to continue to subject

25 transmission rate proposals to individualized scrutiny and

1 retain the balance of interest as set forth in your 2012
2 policy paper. Regarding the California ISO's processes,
3 regular competitive solicitations do occur and have drawn
4 ample responses. Cost effectiveness is considered and most
5 bidders do include cost-containment provisions of some
sort.

6
7 The ISO's process, however lacks the stringency
8 found in typical public infrastructure bidding because for
9 example there's no effective apples-to-apples comparison.
10 The process lacks the public participation, transparency
and
11 due process that is characteristic of this Commission's
rate
12 review. For that reason, the fact that the ISO chose a
13 particular project does not establish that the rate
proposed
14 is just and reasonable.

15 Participation in competitive bidding processes
16 cannot be deemed to substitute for this Commission's just
17 and reasonable review. At the San Luis groundbreaking
18 President Kennedy said "we are able to do anything." I
19 would add I think we still can but I think we should do so
20 cost effectively. Thank you for the opportunity.

21 CHAIRMAN BAY: Thank you. Tony?

22 COMMISSIONER CLARK: Thanks Norman and thanks to
23 the Panel for I thought very thoughtful comments. As much

our 24 as anything I think what the Commission is trying to get
25 arms around or at least what I'm interested in getting my

1 arms around with this particular topic is to ensure that if
2 we move forward on really recognizing cost-containment type
3 bids coming through the transmission development process
4 that what is obtained for consumers on this one hand
doesn't
5 sort of show up somewhere else on another.

6 So this sort of washes out and cost-containment
7 bids just kind of become a de facto way of doing business
8 but the rate really is all the same regardless. So with
9 that as a backdrop I think that drives probably a lot of
the
10 questions that I'll have. The first that I have is I
11 realize we don't have anyone from a planning region on the
12 Panel but you all do business in a number of different
13 planning regions. I'm curious if you can give a sense for
14 how, or maybe you don't know how which is part of the
15 challenge, how each of the planning regions incorporates
16 into its thinking what incentives might ultimately be
17 granted by FERC when it goes through the selection process.

18 So as part of their vetting process they have to
19 be thinking "Well, the project sponsor will at some point
be
20 getting something from FERC, here's what we think it will
21 be" and that helps guide their process. Is it clear how
22 each of the regions take that into consideration or is it
23 completely unclear which is part of the problem, which is
24 why we're here today. George?

25

MR. DAWE: Sure, thank you. I would say it's

1 somewhat unclear and I'll speak to -- well, it's unclear
how
2 the RTO will use the information in their bid. They ask
the
3 developer if they'll be utilizing incentives or if they
will
4 forgo incentives. In the Midwest or in MISO that results
in
5 a forecast of a 40-year ATRR but it's a very subjective
6 interpretation in our view. So that would be my two cents.

7 COMMISSIONER CLARK: I will go to Stuart and
then
8 Raja.

9 MR. NACHMIAS: At least in the process that I'm
10 aware of, it's not considered. The NISO Tariff doesn't say
11 anything about considering incentives. It focuses on
12 capital costs as one of the elements and then there are
some
13 other elements about a developer being able to deliver a
14 project. I think as far as the NISO is concerned, the
15 incentives is really left to FERC as economic regulator to
16 determine so it's not part of that. Part of the issue is
the
17 NISO tariff doesn't even say anything about cost
containment
18 bids and how to handle those and obviously that's a
19 difficulty in terms of just what the different exclusions
20 are.

21 Each cost-containment proposal is even different

22 so there's a lack of clarity of how to deal with any of
23 these issues.

24 COMMISSIONER CLARK: Raja?

25 MR. SUNDARARAJAN: Commissioner, in terms of our

1 experience primarily with PJM and SPP process. In PJM,
what
2 PJM does require as part of submission of each of our bids
3 is language on what the cost containment situation is and
we
4 have used a combination of both containment of capital
costs
5 and also we've in some cases provided authority to RTO, we
6 will not be asking for incentives or if we asked for
7 incentives it would be limited to a non-ROE incentives is
8 predominantly our approach.

9 We actually think PJM doesn't, as Craig was
10 mentioning yesterday, I think they only consider capital
11 costs for consideration. We don't know so we don't think
12 they used incentive at making the cost of capital aspect as
13 part of the evaluation process but where it does come into
14 play is whatever cost-containment provision is put into our
15 bid, both the capital cost and other aspects of our
16 incentive that we put in does get translated to the DEA and
17 will be filed at FERC.

18 To that extent, whatever we have committed to,
in
19 terms of whether they're asking for incentives or forgoing
20 incentives those do get capitalized in the designated entry
21 agreement between PJM and the developer and that will be
22 filed at FERC. We will obviously honor the bid that we
made
23 as part of the rate-making process.

24 MR. DUMAIS: ISO New England hasn't had a
25 competitive solicitation yet. Their Order One Thousand got

1 approved in 2015, but in New England there's been a
2 competitive solicitation done by the States of Connecticut,
3 Massachusetts and Rhode Island. In that they asked for
4 proposals that were complete proposals and which included
5 return on equity and incentives and things like that which
6 they made it very clear that they were going to be
7 evaluating revenue requirement streams over time and that
8 would be one of the considerations.

9 In addition they said that they were going to
10 treat proposals that had cost-containment provisions
11 preferably over those that didn't. So as an entity that
12 submitted some bids into this we had to drill down sort of
13 very deeply as to okay, we want to be competitive because
we
14 want to win but we also want to balance what our risks are
15 and return needs are. So in that my expectation is when
16 they select the winning bids which is supposed to be the
end
17 of July it will be up to whoever the winners are to then
18 come to FERC and make our case for both the tariff
including
19 the ROE, including the incentives. So that's how the
20 solicitation works.

21 COMMISSIONER CLARK: Thanks, Peggy.

22 MS. BERNARDY: Yes, thank you. As we heard
23 yesterday, the California ISO has fairly substantial
24 experience in implementing the Order One Thousand

25 competitive process and one of the things I would like to

1 point out to you is that their pro forma agreement with
2 project sponsors that's contained in the ISO tariff
3 contains a clause that he bidders will agree to maintain
4 their cost estimates and any cost containment provisions if
5 they have included that in their bid.

6 So far as we know there have been no project
7 sponsors breaching that agreement however we're not
8 completely able to see it. There's a lack of transparency
9 that we would like to explore remedying. We are not able
10 to see the bids at the ISO when they are put in. We are not
11 able to review at all the ISO's selection process until
12 well after the fact and then once the cases got to FERC for rate
13 see review during the summary process we've not been able to
14 the bids that were put in. we could get that in discovery
15 at hearing but not prior to that and I feel that some
16 additional transparency in that regard would assist
17 ratepayers.

18 COMMISSIONER CLARK: Thanks. Joe, you gave us a
19 if list of things that the Commission might want to consider
20 we go down this path, which I think if I understand
21 correctly basically falls into this bucket of ideas, almost
22 like a standard incentive that would be granted to certain
23 projects that make its way to the competitive bidding

any 24 process. I'm wondering from, first I'll ask you Joe and
25 of the Panelists who will jump in.

1 Out of that list you gave us are there any that
2 you feel are particularly important? If you were to kind
of
3 rank them or maybe their ranked in order how you gave them,
4 if you could just expound upon that a little bit and then
5 I'd be interested in hearing from other panelists to find
6 out if you think any of those are particularly ill-suited
or
7 disagree with that or maybe some that there's some general
8 agreement around that if the Commission offered more of a
9 standard incentive for a type of project what would that
10 standard incentive look like?

11 MR. KELIHER: Let me try to explain really what
12 was driving, there's actually a common thread between those
13 four or five, four and a half proposals. One is just a
14 recognition that traditional and DCF methodology doesn't
15 fit, doesn't work very well where you're dealing with a
16 cost-contained bid where ROE might be negotiated element or
17 at least a bidded-element, fixed-element in a
18 cost-containment proposal because if you put in that kind
of
19 proposal and you win, then you make your 205 to set rates,
20 the Commission Staff lacking contrary direction or a
21 different direction from the Commission they don't credit
22 that's a cost-containment proposal. They don't treat it
any
23 differently than a non cost-containment proposal and they

24 don't give you any credit for the risk that you've assumed.

25 I'm not trying to be critical of that. I don't

1 see how they could do otherwise absent direction from the
2 Commission. So if DCF methodology is traditional DCF
3 methodology is what's applied in this context the developer
4 will always get the lower of negotiated or litigated ROE.

I

5 do think at some point ROE stops becoming a component of a
6 cost-contained bid. You can try to sidestep it through
7 bidding a revenue requirement but as Craig said yesterday a
8 revenue requirement has some kind of embedded ROE in it so
9 it leaves the task of the RTO to ask "What ROEs are
embedded
10 in this requirement?

11 So if you recognize, if you think competition is
12 a good thing, cost-containment is a good thing,
13 cost-containment that includes ROE is a good thing and you
14 agree that the traditional DCF methodology doesn't quite
15 work because you get the lower of negotiated or litigated
16 ROE. What are ways to address that. The first one is just
17 grant a high level of def. The first one, they are sort of
18 in order. I was trying to pretend I was on that side of
the
19 desk and which ones are, you know, the most viable or the
20 most attractive or the least the smallest change.

21 One is to grant some high level of deference to
22 ROE in a cost-containment proposal. The Commission can do
23 that. It's not wedded to DCF. There is actually a number
24 of court cases that say that very clearly so the policy

25 rationale would be, we like competition, we recognize that

1 if there are incumbent advantages. If we don't give this
2 kind of, I baulk a little bit at calling it incentive but
if
3 we don't give this kind of treatment then cost containment
4 would be weaker and new entry might be less.

5 So you could say, the first one was basically a
6 presumption that ROE in a cost-contained bid is JNR. The
7 burden is on someone else to prove otherwise. So it can be
8 a rebuttable or it can be an irrebuttable presumption but
9 the Commission would probably tend to prefer a rebuttable
10 presumption.

11 The second would be a new ROE adder. So that
way
12 you're recognizing these FNLP doesn't quite work but if we
13 like new entry, new entrants can get an ROE adder just like
14 RTO membership. To me I don't think that's very disruptive
15 and it's again a pure policy rationale. Do we want
16 competition, do we want entry? Does competition work
17 without entry, produces the same outcome that Order One
18 Thousand was designed to prevent or to change?

19 Third would be a standard initial ROE. Now the
20 Commission's been doing a pipeline site for twenty years.
21 The goal there was to encourage pipeline investment and
it's
22 been extremely successful. I think the Commission has no
23 regrets about its approach on pipelines. Here, the policy
24 rationale isn't so much new investment, it's new entry.

25 It's competition.

1 I'm not saying the standard initial ROE would
2 have to be the same as it is for new pipelines but there
3 again if someone were to change, if the Commission would
say
4 we're going to establish a standard initial ROE for all new
5 entrants. Define what a new entrant is because it can take
6 different shapes and the Commission will affirm that for
7 some period of time, I'm not saying like a project. Then
8 the Commission would on policy reasons tend to deflect
9 charges that that initial ROE is too high.

10 Then a long-term one is a different proxy group.
11 If competitive entrants are different they have different
12 risk profiles, then incumbents particularly in operating
13 incumbents in particular, then its -- it made me think of
14 the, nearly ten years ago the Commission was grappling with
15 "well what's the right proxy group for gas pipelines?" At
16 the time the universe of Sea Corps was shrinking, MLPs were
17 growing and the Commission was struggling with "well let's
18 throw in some diverse like-companies that have production
or
19 gas utilities in the mix" and they realized you had
20 shrinking Sea Corps, you have MLPs, you had diverse like
21 companies that are either heavy on the production side or
22 heavy on the local utility side and it didn't quite work.

23 When the Commission finally accepted MLPs should
24 be in the proxy group but it mostly -- the Commission

25 recognized that the ROE that results from traditional DCF

1 methodology doesn't quite work where the risk profiles are
2 different are inappropriate for members of the proxy group.
3 The common thinking is that DCF methodology here isn't
4 working very well and would actually I think discourage
5 entry and cost containment.

6 COMMISSIONER CLARK: Thanks and is there any
7 strong agreement or disagreement with that. Yes, Lawrence?

8 MR. WILLICK: Sure, there was a lot there but
9 just to take it kind of along the list in the same order
10 that Joe had it I do, putting on my Craig Glazer hat, you
11 know having a presumption that an ROE out of a competitive
12 process is just as reasonable as putting the RTO in that
13 regulatory role that I think is problematic. I think

that's

14 the biggest problem with the first option. The second
15 option, and I think we will get into this more and that's
16 sure that having an ROE adder for a cap is really you know
17 the direction of kind of eating into the cap, from having
18 that risk premium automatically on a capped proposal.

number

19 So I think kind of moving down the list to
20 3, a standard ROE for competitive projects I think is
21 attractive. It would provide certainty to everyone at the
22 market, bidders as well as customers. Of course the devil
23 is in the detail of what exactly that ROE for competitive
24 projects would be but assuming it would be something that

25 would be established is just and reasonable by the

is 1 Commission and applied to competitive bids. I think that
2 something that has merit.

3 COMMISSIONER CLARK: Thanks. Raja?

4 MR. SUNDARARAJAN: I think where AEP's approach
5 is a little different from NextEra's approach. NextEra's
6 approach is that I put in my bid with cost caps often in
the
7 provision and by definition there is a transfer of risk
from
8 the ratepayer to the developer. I need to be compensated
9 for the transfer of risk. AEPs approach is a little
10 different in terms of first we would like to know what
11 amount of risk are the ratepayers taking? What is the --
if
12 the Commission can provide clarity of incentives up front
13 then in our opinion the competitive forces will tailor
their
14 bids so that they can appropriately put in their bids
15 because they know you have an upfront certainty and what
16 incentives you will be eligible for both as an incumbent or
17 as a non-incumbent.

18 That's another thing that you need to be
19 recognizant about is symmetry to treat competitive entrants
20 as a new class, which is fundamentally different in more
and
21 more instances than not, competitors both incumbent and
22 non-incumbents are all going after the same projects in an

23 RPO. In our opinion having that upfront clarity of intent
24 will provide a certainty for both incumbents and
25 non-incumbents to tailor the bids and then put in their
bids

1 so that by definition a transfer of risk could already
2 happen, there is no later justification of "oh -- I put in
3 the cost caps so now my project is more risky and I need to
4 come back and ask for incentives". But that becomes your
5 negative.

6 MR. NACHMIAS: I don't disagree with what Joe
7 said as options. I think our proposal is a little bit
8 different but I start at what exactly is a cost-contained
9 bid? I don't know that anyone has defined that. I know in
10 New York what the Public Service Commission suggested that
11 developers bid that if the costs are higher than the bid,
12 percent of the overrun would be in essence written off by
13 the developer and 80 percent of the prudent costs would be
14 recoverable and they proposed it to be symmetrical. Then
15 the downside there'd be an incentive of 20 percent of cost
16 under-runs.

17 In any event, I think what a cost-contained bid
18 is saying is that a developer is taking on more risk and
19 would write down over-runs. I think what Joe is suggesting
20 is various ways to recognize that risk and reflect in a
21 higher ROE either with an adder, a different proxy group,
22 etc. A couple of options. And that winds up being a risk
23 and a write-off and a benefit to customers.

24 What we're suggesting is maybe a symmetrical

20

on

Joe 25 approach as an alternative or maybe in concert with what

1 is suggesting is tell the developer that if you go over
2 budget, maybe you'll have an ROE deduct. You'll certainly
3 give up some incentives and maybe you earn less on that.

In

4 effect a benefit to customers because the earning is lower
5 but that allows for investors to get abound that at least
6 the prudently incurred cost would be recoverable.

7 On the other hand, on the downside and this is
8 where symmetry is important and I really struggle with how
9 to achieve symmetry on the downside because costs not
10 incurred can't really be rate-based. But you could have an
11 incentive where if the costs come in under the cap that was
12 proposed an additional ROE incentive could be granted
13 because what you're doing is rewarding them for coming in
14 under-budget. Still part of the competitive process.
15 Still everybody has to give their best bid to be able to
16 as part of the process and part of the consideration but
17 another alternative with how to balance the symmetry and
18 maybe works in tandem with what Joe is suggesting.

win

19 COMMISSIONER CLARK: Almost like a
20 quasi-performance-based ratemaking.

21 MR. NACHMIAS: It is. Like a performance-based
22 type of ratemaking in a sense. Exactly.

23 COMMISSIONER CLARK: Thanks. George.

24 MR. DAWE: Thank you. I would say that if an

RTO

25 has accepted the project in a regional plan and it's going

1 to be released as a competitive project, it should have a
2 standard set of incentives. The regional based ROE/non-ROE
3 incentives such as quit, abandonment, hypothetical capital
4 structure, I think those will all be helpful to a developer
5 that to get some certainty up front as they prepare their
6 bid. As a developer, I won't know what other incentives if
7 any that I'll need until I get into the location-specific
8 aspect of developing, you know, the project.

9 At that time it may become clear to me. It
10 certainly will become clear to me once I understand all of
11 the locational risks, the administrative risks, the
12 regulatory risk of that project whether or not I'll put a
13 cost-containment on that bid.

14 COMMISSIONER CLARK: Peggy?

15 MS. BERNARDY: Yes, thank you. I certainly
16 understand the desire to reach certainty on the part of the
17 developers and I do understand that however I would urge
18 caution on part of the Commission in going too quickly to
19 standardization. I think we do see some sort of
20 calcification with these long-term incentives being placed
21 into the rates. We would not be in favor of predetermined
22 formula necessarily for incentives. I think as we prepared
23 for this conference we were thinking about various ways a
24 developer might construct it and of course we're not on the
25 inside of that conversation so it's an imaginative process.

in

1 We did come up with a wide divergence of options
2 and I think that as you'll see at this conference there'll
3 be a whole mosaic of different things that would work in
4 different places. I think waiting for the RTOs to mature
5 their competitive bidding process would be a wise move in
6 order to see how this whole mosaic of different incentives
7 is developed at that level. We would be opposed to
8 rebuttable presumption as been discussed.

9 I would also mention we're concerned about some
10 of these incentives getting locked in place for a very long
11 time and one example which is probably something that we
12 don't fight that much about but we do bring up from
13 time-to-time is the RTO membership incentive and so I've
14 heard today that is proposed for new members to address the
15 risk of membership in an RTO.

16 In California we have PG&E who's been the
17 dominant power sector company in Northern California for
18 over 100 years getting an RTO membership incentive. That
19 really doesn't make sense to us so we would ask the
20 Commission to continue its individualized scrutiny of these
21 incentives at the ratemaking stage.

22 COMMISSIONER CLARK: Okay, thank you. Paul?

23 MR. DUMAIS: Yes, just briefly. I don't think
24 that FERC needs to pre-establish incentives for different
25 projects. I know for AVANGRID, when we bid into a project

RSP
1 we look at what we need to make it work for us and at the
2 same time being as low cost and meeting the needs of the
3 and just kind of as an aside the transparency things that
4 were mentioned yesterday I think are really key.

5 It's very important for all of the developers to
6 understand the rules that the RTO is using and how the
7 projects are going to be ranked so that we all have a level
8 playing field to start with. But then we feel that it's
9 incumbent on us if we're selected that we'll come to FERC
10 and we will make our proposal to FERC and is that includes
11 having to justify why we need a hundred basis point ROE out
12 of our project you know we will do that and given your
13 policy statement in 2012 where you look at the
14 project-specific risk and sort of trying to balance
15 everything looking at the quip and you know, those non-ROE
16 type risk reducers.

actually
17 I actually think the competitive process
18 brings out creativity in the ratemaking side too. That, I
19 think if you predetermine things you're apt to lose some of
20 that creativity.

21 COMMISSIONER CLARK: Thanks to everyone.

22 CHAIRMAN BAY: Thank you, Tony. Collette?

23 COMMISSIONER HONORABLE: Thank you, Mr.
Chairman.

24 Good morning everyone. I appreciate your pre-filed
comments

25 as well as your presentations today. I don't even know

1 where to begin and Tony thank you for going through Joe's
2 list. Joe, I appreciate that you ranked them because you
3 were probably reading my mind on a couple of those, I'd
like
4 to talk with you about them.

5 I want to say first that, I want to make a
6 comment and then we will get to some questions. I hope
that
7 we are able to keep our eyes on the prize. What is the
8 prize? It's building transmission efficiently, cost
9 effectively and in ways that benefit consumers and when
10 businesses bring their ideas to the table we want them to
be
11 compensated for them and we want to spur competition that
12 brings out the best, that brings out the best in
13 innovation, efficiency, getting it built timely.

14 I must admit, I'm concerned at some point that
we
15 are getting caught up in the elements of this process and
16 not focusing on the end game. The end game is, in my
17 opinion, doing this in a way that benefits consumers and
18 then developers are winning too. I often say that the
19 ratemaking process is an important one because it benefits
20 consumers and those who are working to keep the lights on.

21 It benefits consumers when developers are
getting
22 good ROEs, when you are able to attract investment, when
23 you're getting good credit ratings from Wall Street. That

24 absolutely benefits consumers but at the end of the day I'm
25 wondering if we're getting caught up in this game of

1 developing more incentives and processes outside of the
2 traditional ratemaking process which I still find value in.

3 Now, your points to those of you who referenced
4 concerned about the application of the DCF methodology to
5 this work, I appreciate that. I fully appreciate that

there

6 is a disconnect between our traditional work here. I'll be
7 the first to admit it takes a while to sort through and the
8 need to be able to move more nimbly and quickly through the
9 competitive processes.

10 Having said that I do want to talk about some of
11 the things that I've heard. The gentleman from AVANGRID,
12 what a lovely name for a company. You indicated that you
13 believed the Commission should not make incentive ROE's
14 conditioned on the base ROE. So in light of my intro, tell
15 me why it should not be connected? I admit, and I think

Joe

16 and a few who know me well, I am a regulator and have been
17 for some time and I want to be able to be creative and
18 nimble and move as the industry is moving but I'm having a
19 hard time connecting why this, the incentives and ROEs
20 associated with projects should be unto themselves.

21 MR. DUMAIS: Okay, thank you for the question.

I

22 guess I will look to an existing project that Central Maine
23 Power Company in New England, Maine Power Liability where
24 there's an incentive ROE that floats on top of the base and

25 I guess the base, as I look at it assumes sort of your

1 portfolio of assets you know which you've got small
2 transmission projects and larger transmission projects and
3 it's sort of the average where the incentives, granted, at
4 least the incentives that I've seen FERC grant, ROE
5 incentives tend to be on bigger, riskier projects.

6 And so the way I look at is those projects, the
7 developer as well as FERC has decided that in order to move
8 these forward if the incentive provides the impetus for the
9 developer moving in the direction of completing the
project,
10 managing the project. I think it just works best when that
11 floats on top of sort of your average base ROA so what I
12 wouldn't want to see happen would be if capital market
13 conditions changed and base ROEs needed to go up that would
14 then eliminate some of the incentive that you have.

15 I mean, we already have that situation to a
16 degree with the top end of the range capping some of the
17 incentives and I just wouldn't want to see that happen
18 anymore. Just like if capital market conditions are low
and
19 base ROEs tend to be lower, I don't think you need a bigger
20 incentive.

21 COMMISSIONER HONORABLE: I don't think everyone
22 agrees with that. I can agree with that premise but I
don't
23 think everyone in the room does, but go ahead.

24 MR. DUMAIS: Okay. So I think I was concluding.

25

COMMISSIONER HONORABLE: I also would like to

1 talk about your 4th factor, setting the ROE at the high end
2 of the zone of reasonableness and I also will invite Mr.
3 Dawe from Duke ATC to join in because yesterday we heard
4 from John Hughes from ELCON that this work, building
5 transmission and putting forth a proposal that encompasses
6 your cost and trying to stay within that; that's something
7 that's within your ordinary course of business.

8 Now I think we heard George today talk about why
9 these projects are different and that the risks are
10 different, inherently in this type of work but I need your
11 help in understanding why this is an option that the
12 Commission should consider outside our traditional
13 ratemaking processes.

14 MR. DAWE: Okay. First of all, you reference
15 John's statement. His statement surprised me because it
16 reflected a view that somehow there's some really effective
17 FERC Prudence review of a regional transmission projects
18 that I am not aware really exists. When I was at the
19 Commission, one complaint I heard from state regulators
20 consistently wasn't a lack of transmission investment. It
21 was about cost overruns on regionally planned projects and
22 the view of many state regulators was that if relatively
23 bids are put in, someone wins a not necessarily competitive
24 regional process then, I'm just going to make up numbers,

very

low

50

25 percent cost overrun and there is no FERC prudence review

1 policing that.

2 I thought Order One Thousand was really a
3 response to that, an elimination in order for an
4 introduction to competition. FERC I think viewed it as a
5 more effective way to control those costs and then somehow
6 actually having FERC rate cases on the cost of regional
7 transmission projects and trying to knock a nickel off here
8 and there. For example, the view that competition has more
9 of an effect on pleasing cost than classic you know
10 after-the-fact prudence review. So anyway his comment
11 surprised me. And now I've completely lost your question.

12 (Laughter)

13 COMMISSIONER HONORABLE: Okay, persuade me on
14 your point.

15 MR. KELLIHER: Number four?

16 COMMISSIONER HONORABLE: Yes.

17 MR. KELLIHER: Yes, okay. Well if the current
18 proxy group represents a group of companies that are going
19 to have risk profiles very different from a new entrant
20 putting in a cost-contained bid. That new entrant putting
21 in a cost-contained bid is assuming a much higher risk than
22 the current proxy group. So somehow, setting the ROE at
23 midpoint or putting it on the usual spectrum of a proxy
24 group that is not representative of the risk who's ROE
25 you're actually setting is not going to produce, to me, the

the

1 correct outcome.

2 So if you recognize they are higher risk than
the
3 proxy group members then they should be higher, like higher
4 end of the spectrum. As the reverse it would be true if
5 somehow they were much lower risk than that proxy group and
6 it's hard to think about who would be at much higher risk
7 than the traditional proxy group for an electric
8 transmission case. They should be on the lower end of the
9 proxy groups perhaps. So it's more that the risk is
10 different than everyone else in the proxy group so putting
11 them at the usual point in that continuum under rewards
them
12 given the risk that they've assumed.

13 COMMISSIONER HONORABLE: So you're saying on top
14 of all of these incentives and keeping in mind that when
you
15 put in a bid you should be striving to meet your costs,
then
16 you go to the higher end of the --

17 MR. KELLIHER: I'm not saying incentives plus
18 that. I'm sorry. Some of these options are mutually
19 exclusive so I think if you did that and said a new entrant
20 with cost-contained bid, they'll be at the high end of the
21 zone of reasonableness. I think that's it. They are not
22 getting an ROE add-on on top of that.

23 COMMISSIONER HONORABLE: Okay.

24 MR. KELLIHER: And they're not getting the
25 standard initial ROE. Some of these are mutually exclusive

1 options.

2 COMMISSIONER HONORABLE: George?

3 MR. DAWE: Thank you. I would say that just as

a

4 developer in a competitive environment, I need to do so

much

5 more, more quickly than the traditional transmission

6 development process. It's contracting with construction

7 contractors up front, environmental firms, engineering

8 firms, spending money too so that I know what my costs will

9 be and can submit a really fine-tuned bid. Now whether or

10 not I choose to contain that is a decision for me and my

11 board and things like that but I do need to stress that

12 it's not traditional transmission development. It's really

13 accelerated transmission development and there's risks to

14 that.

15 Certain incentives non-ROE type of incentives

16 aren't granted. The developers don't know that up front.

17 Many developers just won't take that risk and so you're

18 going to fewer people doing that. We're about to move into

19 an environment where we're not talking about a 12 million

20 dollar project in SPP or a 60 million dollar project in

MISO

21 or substation upgrades at the seams of PJM and myself.

22 We're talking about environmental regulations that are

23 requiring plants to retire, the potential clean power

24 plants, some version of it coming down the road.

25

By all accounts, that will drive billions of

1 dollars of transmission investment which I think you want,
2 the public and consumers want that to be competitively
3 driven. So we'd like to get the rules of the road
straight.

4 We'd like to have the transparency and some certainty with
5 how the RTOs are going to evaluate those bids.

6 COMMISSIONER HONORABLE: Thank you. Peggy?

7 MS. BERNARDY: Thank you. We have a hard time
8 understanding the need for an incentive ROE in the
9 California ISO. There has been plenty of applicants.
10 There's been plenty of bidders and I believe there was only
11 one competitive solicitation that gave rights to only a
12 single bidder. So it think we have a healthy, competitive
13 environment at the ISO and when you start to segregate
these
14 risks and try to understand what risk is actually being
15 addressed by an incentive ROE we can understand the concept
16 of it but I don't think it's easy to see in reality where
17 than can actually be segregated out of the traditional
18 methodology that is used to develop the base ROE. I think
19 sticking with that and looking at that on an individualized
20 basis is the way to go.

21 COMMISSIONER HONORABLE: Thank you. For me,
it's
22 about understanding the true nature of the cost because
23 consumers are paying that at the end of the day. Raja?

24 MR. SUNDARARAJAN: The one other thing that we

25 would like for the Commission to consider is when

1 cost-containment provisions are re-proposed, it's not just
2 by the new entrants. It's also proposed by the incumbents.
3 So the concept of if you start setting ROI that is
different
4 from a traditional VCF approach now suddenly what if an
5 incumbent proposed a cost-containment provision in this
6 designated project? What happens then? Now suddenly
you're
7 deviating from the traditional VCF, that is applicable for
8 all other transmission projects. Do you set the new ROE
for
9 that specific project that is different from others?

10 There are other ramifications we can vote on
11 their own that we would want to consider as opposed to --
12 and that's why we thought about these and we felt there
were
13 too many issues that brings into the equation when you
start
14 isolating ROEs separate from new entrants as opposed to the
15 incumbents because we fundamentally believe that these are
16 true voluntary caps that are being proposed both by
17 incumbents and by non-incumbents as part of the competitive
18 process.

19 These are voluntary decisions and as long as we
20 get clarity up front with respect to the incentives that
are
21 hopefully both beneficial to ratepayers and to developers
22 which are primarily non-ROE status. I mean that
incremental

23 stuff will go a long way in terms of providing the clarity
24 both incumbents and non-incumbents can do in terms of
25 tailoring their bids and submitting as part of the

1 competitive process as opposed to a different approach for
2 new entrants that will be fundamentally different for
3 incumbents.

4 COMMISSIONER HONORABLE: Yes, Stuart?

5 MR. NACHMIAS: Yes, I just want to add that the
6 risks in transmission development are clear. So even if we
7 put in a bid and there's a cost cap in that as a developer
8 we're looking to implement, we still have to go through the
9 ISO or RTO process, through selection. The certainty of
10 timing of that. Then we have to go back and get sitting
11 done, if there are expansions of right-of-way or new
12 rights-of-way. So when construction actually begins and as
13 we work through that there is risk in terms of equational
14 measures. Are we going to be able to get contractors at that
15 point in time? What other projects are going to be
16 underway. What is available then and how to manage through
17 that whole process?

18 So there's, even putting in your bid and having
19 that locked in in some way, right, and then managing that
20 process. These are risks to go. These are very long
21 processes. They take years before we are able to see a new
22 transmission particularly long distances get built and
23 implemented and I just wanted to note that.

24 COMMISSIONER HONORABLE: Thank you and congrats
25 on getting your new project under way. Okay, my last

1 question really touches on something that Peggy mentioned
2 about where we are with incentives generally and I wondered
3 whether there are incentives that we no longer need now. I
4 might know what Peggy's perspective is. She has given us
5 some thoughts about that but I wanted to ask the other
6 panelists because I agree that incentives can be a very
7 useful tool to encourage performance and to work toward the
8 accomplishment of policy objectives.

9 I also think it's healthy to take a look at
where
10 we are in our use of incentives and how they have aided in
11 the achievement of certain objectives as it relates to
12 transmission development. Are there any that could sunset
13 in your opinion.

14 MR. KELLIHER: Sure. I never liked the
15 technology adder. Now, it's disfavored. I'm not sure it's
16 still alive at the Commission, it's been disfavored but
I've
17 never liked the technology adder. It wasn't performance
18 based and anyway I was never a fan of it but Congress was
19 --.

20 (Laughter)

21 COMMISSIONER HONORABLE: You still know our
22 world, don't you? (Laughs) Raja?

23 MR. SUNDARARAJAN: Well, I do have to say that
24 AEP obviously is investing uniquely in technology for

25 transmission. We are developing a new transmission line

1 which is called a bow line.

2 COMMISSIONER HONORABLE: Bow line?

3 MR. SUNDARARAJAN: The bow line -- the
4 breakthrough overhead line design is what we call it which
5 effectively carries twice the capacity of the traditional
6 line at a much lower visual impact. We actually think that
7 one of the reasons why we took the effort and time and
8 effort to develop a new line design is the potential
9 development of the technology down the line.

10 If we take away the need for technology adder
11 unilaterally for all projects that would send a significant
12 signal especially to entities like us. We spend a lot of
13 time and engineering and design with respect to technology
14 and implementing new technology in the process.

15 COMMISSIONER HONORABLE: And R&D.

16 MR. SUNDARARAJAN: Yes.

17 COMMISSIONER HONORABLE: So it's interesting. I
18 had a conversation with staff as we were preparing for this
19 technical conference about this particular incentive and
the
20 fact that maybe in places in New England or the Northeast
21 portions of the country there are some innovative
proposals.

22 I'll go to Peggy.

23 MS. BERNARDY: I was just going to say though
24 it's not quite a response to your question that we do

25 support certain non ROE incentives such as the regulatory

1 asset, hypothetical capital structure, even a formula rate.
2 In a lot of ways we see this has been effective in reducing
3 risk and benefits the ratepayers in terms of lower overall
4 costs so we would support that.

5 COMMISSIONER HONORABLE: Thank you. Now you're
a bit more evenhanded in your discussion. Paul?

7 MR. DUMAIS: Quickly. I think the policy
8 statement back in 2012 where FERC is going to look at a
9 project and tailor the incentive needs to the project is

the
10 way to go and Commissioner Honorable I think that when your
11 children do really well in school you should reward them

12 (Laughter)

13 In some way.

14 COMMISSIONER HONORABLE: I do. Some of what I
15 heard yesterday says you don't get a cookie for getting

good
16 grades. You ought to get good grades every quarter.

17 (Laughter)

18 MR. DUMAIS: and I can tell you just the impact
19 that incentives have within a company that is an
20 international company in getting the attention of the
21 parent, it does make a difference with channeling the
22 energies and the capital and all into a successful project.

23 COMMISSIONER HONORABLE: I do appreciate that
24 coming from a state regulatory chair and that the

25 considerations of a company are different in where you are

1 investing your dollar. I greatly appreciate that. Stuart?

2

3 MR. NACHMIAS: So overall I think some of the
4 incentives like on new technologies and innovation can be
5 very useful in terms of encouraging that kind of behavior,
6 maybe congestion reduction incentives which provide

benefits

7 to customers and we've talked about some other incentives
8 that might be helpful here today. Maybe performance-based
9 incentives or incentives for competitive development.

10 I think the one, I'd be remiss to say, the one
11 that is always controversial I think with state regulators
12 is the RTO participation incentive and so that is you know,
13 an available incentive today, without commenting one way or
14 the other I just know that that is a sore point for state
15 regulators and I'd be remiss to not point that out.

16 COMMISSIONER HONORABLE: Thank you. I'm sure

the

17 Narick folks in the room would appreciate you saying that.

18 Joe?

19 MR. KELLIHER: I think FERC incentive policy has
20 been very successful and it is important to remember what
21 the situation was before the policy was established. We

had

22 seen very low levels of transmission investment.

Transition

23 investment peaked in the 70s and it was on a downward slope

24 since then. FERC incentive policy was designed directly to
25 change the direction of that investment and it has been

1 successful so I think the policy has been very successful.

2 Some would argue "well, that would have happened
3 anyway" and I just don't believe that. Some state
4 regulators when I was on the Commission would complain FERC
5 transmission incentives were so generous that it biases
6 investment on transmission versus other solutions so that's
7 at least an anecdotal suggestion that it did change
8 investment decisions.

9 But RTO membership adder, that I think is still
10 important. I mean, what was the Commission's goal in the
11 RTO membership adder? It was to try to address vertical
12 market power. The Commission's view is that RTO
membership,
13 vertical market power is harder to exercise in an RTO
14 context. The Commission thought there was value in
reducing
15 the risk of vertical market power so therefore provided a
16 pretty modest adder.

17 Now the fact that people have been RTO members
18 for a long time doesn't eliminate the possibility that
19 someone could actually seek to exit. I think the
20 Commission's order in LG&E is widely misunderstood. They
21 think it's easier to exit than I think it actually is, but
22 if their perception is well we can leave and the Commission
23 believes that RTO membership has a value in reducing the
24 opportunity for vertical market power then I think

25 continuing the adder still has value if there's a
perception

1 that exit is easier than I actually think it can be.

2 COMMISSIONER HONORABLE: Thank you for the
3 Historical perspective, George.

4 MR. DAWE: Thank you. I would be reluctant to
5 take any incentives off the table because I think that it's
6 good to have a lot of things to choose from if they're
7 needed. I would point out though that I think the ROE
8 adders for the riskiness of a project tend to be in

conflict

9 with the concept of cost containment. We can get into

these

10 deep discussions about what is cost-containment but I tend
11 to think that there is less of a need to ask for multiple
12 basis points above and still try to deliver the project at
13 the lowest cost which is what essentially you're saying in

a

14 competitive bid.

15 COMMISSIONER HONORABLE: Thank you. Great
16 discussion. I appreciate your thoughts. Mr. Chairman.

17 CHAIRMAN BAY: Thank you Colette. Cheryl.

18 COMMISSIONER LEFLEUR: Well, this has been a
19 terrific discussion. A lot of the themes I wanted to probe
20 on have been discussed and I want to try to take a look at
21 where we go from here and some of the mechanics of what
22 we're talking about. So I'm trying to imagine if we
23 envision ourselves reopening the 2012 Policy statement to
24 try to take a look at what we're going to say

25 post-competitive bidding in Order One Thousand and I will

1 say it wasn't east to agree on that much clarity so it's a
2 little bit of a daunting task to think of recalibrating
3 incentives but it does seem that the Order One Thousand
4 process has really changed the game in a lot of ways.

5 So the first thing I want to probe on is generic
6 versus specific incentives which has been eluded to a few
7 times. The premise of the way that it's been done under

679

8 and the policy statement are other than the RTO adder,
9 almost every incentive has to be justified by the company

or

10 the project. Sometimes by both. You look at not just how
11 risky is the project, what are the risks and challenges but
12 how risky is it for that company. That doesn't necessarily
13 seem to fit well with the process of companies going out

and

14 competing to do projects.

15 So for starters are there some incentives we
16 should just do generically and not keep having case after
17 case? I'm thinking of Quip, abandonment when it's shown
18 that it was not in the company's control. I'm not talking
19 abandonment like you think you might be chosen then you
20 weren't chosen. I mean like you were doing it and then it
21 was abandoned.

22 Potentially regulatory asset before the project
23 goes in should we maybe get some of those set up so those

at

24 least aren't floating around in the process and leave the
25 ones that are variable to others? I guess that's my first

1 question. Is there consensus on that? I heard a couple
2 people say it or is there a problem with that?

3 MR. DAWE: I would agree. I would go back to
4 what I said earlier. If the plan has been accepted or if
5 the project has been accepted in the regional plan I think
6 that's the condition that should be met and I'm recalling
7 earlier that that's what the Commission would do. If a
8 developer came with a proposal they would conditionally
9 accept that proposal based on it being accepted in a
10 regional plan. I think when doing this process that
happens
11 ahead of time.

12 Perhaps not in PJM, I'm unclear on that one but
I
13 think CAL, ISO, SPP, MISO. It would make sense to me
anyway
14 for certain standard incentives.

15 COMMISSIONER LEFLEUR: That is what I meant. I
16 didn't mean incentives for bids, I meant incentives for a
17 project that was chosen. Paul.

18 MR. DUMAIS: I agree with the direction that
19 you're headed. I think in my review that I try to follow
20 the FERC incentive orders. You know, many times FERC gives
21 the non-ROE ones upon showing of risk and things like that.
22 So I think what you're suggesting makes sense. One thing
23 that I'll mention in the New England Clean Energy RFP one
of

the 24 the conditions is that customers cannot be charged until
25 project goes into service so it eliminates the Quip

1 incentive and there may be situations where particular
2 incentives just aren't going to fit.

I

3 MR. KELLIHER: I mean, right now I don't think,

say

4 can't think of the Commission ever denying Quip or
5 Abandonment. I can see it but if the Commission were to

but

6 "everyone has Quip and Abandonment just kind of put it in
7 your 205 but you have to ask for further incentives". I
8 think that the risk is very low that it would be denied,

9 it's even lower like it's zero and then in other cases it
10 seems the risks and challenges you'd have to demonstrate on
11 a project-specific basis.

a

12 It doesn't work very well right now on a
13 cost-contained project because the reaction of trial staff
14 might be "well, that's a risk you assumed, it's not a risk
15 associated with the project, it's a risk associated with
16 your bid, so we're going to discount that." We think it's
17 risk that redowns to the benefit of the customer, but the
18 Commission is going to have to clarify that.

19 Then independence adder is something that the
20 company would have to demonstrate. That's one too where I
21 think there has only been one independence adder, ITC, but
22 when the Commission recognizes there's ranges of
23 independence and I'm thinking about that because there's

24 going to be different kinds of cost containment and that
25 will make it hard as was referenced yesterday if you have

1 three different cost-contained bids that are cost-contained
2 in different aspects, which one's better? That one will
not
3 be easy to set.

4 COMMISSIONER LEFLEUR: Stu?

5 MR. NACHMIAS: I think a revised policy
statement
6 that has maybe a category of incentives, either ROE
7 incentives or perhaps non-ROE type incentives that are
8 available to developers that are selected in a competitive
9 process recognizing that cost is an important component and
10 we do want to get that benefit for customers so that's one
11 of the factors that's been considered. So whether
12 there's some sort of performance ratemaking available or
13 some other adders and it would in essence be almost de
14 facto that maybe the developer has some flexibility in
which
15 one it would propose but in order to make it you know less
16 of a showing of I have to demonstrate the risk which is
17 sometimes really hard to do of the project and instead say
18 because I was in this process and this is how I was
selected
19 and this is what the ISO processes are, you know these are
20 the incentives that are available.

21 COMMISSIONER LEFLEUR: I was going to come onto
22 ROE incentives. I was only talking about the risk -- but
23 you're saying the more clarity you can have ahead of time -

24

25

MR. NACHMIAS: Clarity ahead of time I think is

1 going to be really helpful because ultimately that's what
2 investors, right, are looking for and recognizing the sweet
3 spot is a benefit to customers and how investors are going
4 to manage that risk.

5 COMMISSIONER LEFLEUR: Raja?

6 MR. SUNDARARAJAN: Given our position of capital
7 costs being the fundamental reason for evaluation as
opposed
8 to cost of capital, another benefit of having quip and
9 abandonment is when if Quip was provided for the
competitive
10 projects, both for incumbent and non-incumbent, then
11 omitting the RTO selecting because not the AFUDC element of
12 the project doesn't come into play and you are comparing
two
13 different projects because the AFUDC now if you don't have
14 Quip the AFUDC and the rate base of the project which is
15 actually being charged to the customers includes the cost
16 of capital element in it.

17 So if the ideal way, if you want to compare to a
18 perfect apples-to-apples comparison would be in multiple
19 proposals and if you want to clearly isolate the cost of
20 capital element out then if Quip is provided for
comparative
21 projects even then there is no need to provide what an
AFUDC
22 calculation would be for different proposals and then go on
23 the path because even that becomes objective in our

24 response.

25 So there are multiple reasons why we would

not

1 actually support the Quip and Abandonment. Not only for
2 only providing the clarity for developers who put in their
3 bids but also in our opinion it helps our pre-evaluation
4 process to take the AFUDC element out of the equation so
5 that it becomes a much more transparent process.

6 COMMISSIONER LEFLEUR: Peggy, you're paying for
7 this.

8 (Laughter)

9 MS. BERNARDY: Pardon.

10 COMMISSIONER LEFLEUR: You're on the customer's
11 side paying for this.

12 MS. BERNARDY: Yes, I'm paying for it. I think
13 in that respect we would certainly appreciate the
14 simplification of the rate proceedings that a generic,
15 well-known incentive would provide and we certainly
16 understand the need for certainty on the developer's side.
17 As the Department of Water Resources, we do a lot of
18 construction, we do a lot of projects so we understand from
19 not the private capital equity side of things but we
20 understand the difficulties of a project and the need for
21 certainty up front.

22 However, I think our view of any of these
23 incentives that were put into sort of a generic form would
24 depend on what it is, really. Certainly the Quip and
25 Abandonment Project as traditionally applied and regulatory

1 asset are you know, almost never heavily disputed in our
2 experience and pretty routinely granted and so they would
be
3 candidates for a generic however I don't know that that
4 gives us that much further down the line of simplification
5 because they are already kind of in that box.

6 In terms of the substance of the incentive, we
7 would look at actual incentives that actually reduces risk
8 and we'd like to participate in that. We would, if it
9 doesn't reduce risk we would definitely be looking at it
10 from the perspective of "is this an incentive that merely
11 shifts risks to the consumer or is it an incentive that
12 tries to come up with a mechanism that somehow shares the
13 risk?"

14 And we've heard various things like that. I
15 think there's so many different variations of that kind of
16 risk-sharing, I think it would be hard to identify one up
17 front that would work for every situation but that's the
18 type of substance we would be looking for in that kind of
19 genre. Thank you.

20 COMMISSIONER LEFLEUR: Thank you. Well, turning
21 to the money incentives, you know ROE adders and
22 hypothetical capital structures just money, I mean it's
just
23 another way to do it, as opposed to the accounting
24 incentives. So now turning to the money incentives, I

25 understand the, what would make somebody want to know up

1 front when they went in to give a bid, what they would be
2 getting in terms of rate treatment. I do understand that
3 chicken and egg problem I just think it's, I'm wondering
if
4 we're leaving value on the table for customers if we don't
5 allow people to compete on how much risk they're willing to
6 take.

7 We heard from people yesterday who said when
8 including non-incumbents, we can do it without ROE adders.
9 And so if, I mean just backing up a minute, the premise of
a
10 lot of Order No. 679 that I've struggled with really from
11 the time I got here is its basis on paying for risk because
12 it's incentivized people to file applications saying "my
13 project is so risky. I mean, it is the riskiest ever. I'm
14 choosing the most unproven technology and going the
riskiest
15 route, this is risky, risky, risky." And I'm thinking why
16 are we you know asking people to show they're risky? Is
17 that what's best for customers?

18 I mean I do understand you get what you ask for.
19 So, I mean if somebody can come along in a competitive
20 process and accomplish the need in a less risky way or be
21 willing to put more of that risk on their investors for
22 whatever evaluative reason they have, isn't that better for
23 customers? Shouldn't how much risk you're willing to take
24 on and how you're willing to share it in an ideal world be

25 part of the comparison because that's another way that we

1 can deliver value to the customers? That's my question.

2 (Aside from the audience. Laughter)

line

3 COMMISSIONER LEFLEUR: I'll just go down the
4 starting with Lawrence.

the

5 MR. WILLICK: Sure, well I think the you know
6 risk adders are specific to a project's risk and in the
7 planning process if you know, I guess in a bid model the
8 projects are even defined and it's as risky as it's been
9 defined by the RTO. In a sponsorship model, it might be
10 case that the best project that has the overall least cost
11 is also a risky project. If you take that into
12 consideration the small ROE added for risk could be, you
13 know, more than offset by savings in the project itself.

the

14 COMMISSIONER LEFLEUR: So if I'm and I would say
15 in some of our orders the risk is not just project-specific
16 but company-specific. What the size is in proportion to
17 customer's balance sheet and so forth. So if I'm PJM and
18 this is the sponsorship model, I'm looking at all these
19 projects, I have to somehow in my head say well, this one
20 might get a bigger incentive because it looks riskier but
21 this one wouldn't need an adder or do you think that there
22 should be some process to clear that up ahead of time?

23 MR. WILLICK: Right, I think it would be looking
24 at an estimate of the revenue requirement, taking into

25 account the ROE including.

1 COMMISSIONER LEFLEUR: So then that does allow
2 people to bid in what they are willing to take for risk?

3 MR. WILLICK: Yes.

4 COMMISSIONER LEFLEUR: Raja.

5 MR. SUNDARARAJAN: Yes, well maybe my comments
6 are pretty similar to what Lawrence is saying. In a
7 bid-based model, you clearly know what the project-specific
8 risk is. To that extent the Commission can provide clarity
9 on what the project-specific risk is that goes beyond the
10 non-ROE incentives. I think obviously AEP and Transource
11 would support that initiative. To address the
12 company-specific risk, I don't know how much that is true
13 anymore.

14 In terms of the company-specific risk given that
15 most of the entities are either affiliates of a larger
16 utility or the incumbents that are participating in this
17 process, company-specific risk was primarily the evaluator
18 for quip and abandonment and non-ROE incentives anyway. So
19 the ROE risk was predominantly being used for judging the
20 project-specific risk which in this case in a bid-based
21 model, you know up front.

22 In a sponsorship-based model, we believe that
the
23 value of ideas far outweighs the incremental analysis of
24 what potential ROE adder that project would entail and I
25 think that's where the complication of up-front penalties

1 are much more difficult in a sponsorship model. At that
2 point I think the developer has to take a risk of not
3 getting incentives because in their opinion execution of
4 idea is, the evaluation of the idea itself is what's at
5 stake and let the RTO process be where it is. The
developer
6 should take upon whatever risk of not getting the
incentives
7 with respect to the ROE incentives. That's part of the
8 process and when you put in your bid, you should assume
9 whatever probability of getting the incentive as part of
10 your bid.

11 COMMISSIONER LEFLEUR: People have always taken
12 some risk because ROEs do change.

13 MR. SUNDARARAJAN: Exactly, yes.

14 MR. NACHMIUS: So I think if I thought about our
15 policy statement maybe that FERC issued that said that in a
16 competitive process there were some types of incentives or
17 performance incentives that were available that helped
18 balance the risk. I think Peggy said it best before
between
19 what the customers and what developers are taking. I don't
20 think it has to be absolute in terms of how that works.

21 I think there could be tiered approaches for
22 example on a performance-based risk but we want to keep the
23 ISOs and RTOs out of that part, have them focus on the
24 capital cost and obviously the other attributes that are in

as 25 their tariff and then let that come to FERC and then just

1 ROE is proposed I think that the availability of other
2 incentives can be proposed and then it can be adjudicated
3 through the FERC process with all of the relevant
4 stakeholders and then how it gets implemented and what the
5 incentive is and how it's tiered, that would be specific to
6 the particular case. At FERC all of the stakeholders can
7 have a role and they will be interrelated. So it could be
8 you know a good way under using sort of current process to
9 get there.

10 COMMISSIONER LEFLEUR: Thank you. I do
11 appreciate your idea of the PBR and the ROE. We went
partly
12 that way on the policy statement by saying if you go over
13 budget you don't get your adder and after the Nesco case
had
14 raised that but you are saying go the other way. If you
are
15 under budget, you are proposing getting an extra adder.

16 MR. NACHMIAS: Yes. It's going a little further
17 than what the current statement would allow.

18 COMMISSIONER LEFLEUR: But I guess not to make
it
19 harder but, so if there is a sponsorship model, the project
20 is chosen, then the company goes in and makes their
proposal
21 to FERC whether it's for ROE adder or some kind of
22 performance-based ROE or whatever it is. And another
23 company that was almost chosen would have not needed that

24 adder or been willing to do it for a lower ROE. Are we

25 leaving money on the table?

1 MR. NACHMIAS: The question, I don't think so
2 because I think what you're doing is separating what the
ISO
3 and RTO's responsibility is and what FERC's is and I think
4 ultimately you know it's hard to say, because you don't
know
5 what you don't have. The same as you could exist today,
6 right, with incumbents. How do you know?

7 COMMISSIONER LEFLEUR: But the company goes into
8 PJM and says I won't ask for an ROE adder. I guess that
9 could be factored in, but I guess you --

10 MR. NACHMIAS: it could be, but you know,
11 forever? No, or they're never going to ask to change their
12 ROE? I mean there's so many different --

13 COMMISSIONER LEFLEUR: Well, that was going to
be
14 my next question if I had time.

15 MR. NACHMIAS: Yes.

16 MR. KELLIHER: I agree with your frustration a
17 little bit about risk and how projects would come in
because
18 two projects that are electrically equivalent, one is a
19 four-state project, one is a single-state project. The
20 first one is arguably riskier so should it get a higher ROE
21 than the 2nd one? Should it just be, even though the
22 benefits are the same the electrical effect is the same.
23 But ROE are money-adders. They are not always tied to
risk,

24 right. I mean to me there's three rationales for some kind
25 of ROE adder.

1 The first one is it's the power to tax, it's the
2 power to destroy, the power to incent, the power to
increase
3 investment. The classic case was Path 15 in California.
4 After the California crisis FERC encouraged, the
5 administration proposed a WAPA project or WAPA would build
6 out Path 15, private sector money built it. FERC
7 established a 13.5 percent ROE. Completely on policy
8 reasons. No attempt at saying that's what DCF produced and
9 the court robustly affirmed the Commission.

10 So there the Commissioners won and their
11 investment on that particular project in the wake of the
12 crisis, the courts have held it, no problem. The
13 Commission's base ROE, putting incentives aside and adders
14 aside, the Commission's base ROE on transmission was
15 generous enough where that was producing a lot of the
16 increase in investment. So just wanting more investment,
17 that historically has been a reason to set adders or
18 relative high ROE. The risk is part of it and are those
19 risks the ones imposed from the outside or the risk is one
20 that a company assumes in putting in a cost-contained
21 proposal where the customer benefits from cost containment.
22 How should that be factored into the mix?

23 The third is just a policy rationale, right.
the
24 independence adder are completely policy rationale; RTE

25 membership, completely policy rationale; nothing to do with

1 risk. I think the notion of some of the ideas that I've
2 laid out relate to either crediting risk or recognizing
3 policy benefits of competition and cost containment.

4 independence

COMMISSIONER LEFLEUR: I thought the
5 adder was initially premised on it was riskier to be an
6 independent but still I --

7 MR. KELLIHER: I think it was more to reduce the
8 risk of vertical power market exercise by sending
9 transmission out.

10 COMMISSIONER LEFLEUR: Paul?

11 MR. DUMAIS: I think that Agenda Item Number RTO
12 solicitations they need to solicit the full attributes of
13 the project including what the developers are looking for
14 for ROE incentives, the whole gamut and make their
selection

15 according to their matrix of criteria and then they select
16 and then the developer has the responsibility of coming
17 before FERC and trying to get that. If for some reason
FERC

18 disagrees then you know that developer then likely has
19 opt-out, some sort of an opt-out to say well, you know I
20 didn't get the ROE or I didn't get the incentives that I
21 want so I have a decision am I going forward or am I not
22 going forward.

23 If they don't go forward, then the RTO has the
24 second project that they can then -- you know, I know

25 there's a time issue here but I just think that the RTO

1 needs a full evaluation.

2 COMMISSIONER LEFLEUR: Thank you. George?

3 MR. DAWE: Thank you. I've a little bit
4 different twist to it I guess. So I'm paying up from to
5 reduce the project risk. I can get comfortable with that.
6 I can identify those with those and get comfortable with it
7 and decide if you know, what incentives I need, cost
8 containment, things like that.

9 My biggest exposure, risk exposure in my opinion
10 is the evaluation risk. I have no idea what the RTO is
11 going to do. General framework for how they plan to
12 evaluate my project after I've spent x amount of dollars
13 no real idea because they are not being very specific. We
14 need that kind of clarity to keep developers engaged. If
15 you keep the developers engaged you will have more
16 competition and more competition you won't have much money
17 left on the table.

but

18 COMMISSIONER LEFLEUR: That's very helpful.
19 That's process clarity. You're not saying FERC should give
20 money ahead of when you win the project?

21 MR. DAWE: No. Process clarity is what I was
22 trying to point out.

23 COMMISSIONER LEFLEUR: Thank you. Peggy?

24 MS. BERNARDY: Yes, going to the original
25 question. Are we leaving money on the table if incentives

1 are not added? I have to say, I have no idea. And when I
2 think about how I would get an idea on that question, I
3 can't access the documents and so my way of looking at you
4 know, are we leaving money on the table would be to look at
5 all the bids that were submitted on a particular project,
6 send it off to the engineers to give a look-see at it and
7 give it a thought. That wouldn't be the final answer but
8 that would give me some idea. I would like to have the
9 ability to see those bids.

10 Just one small point on Path No. 15, I think we
11 all recognize that was unusual circumstances not to be
12 replicated and not to be used as a precedent. Thank you.

13 MR. KELLIHER: I wasn't saying 13 percent
14 should be the standard initial ROE.

15 (Laughter)

16 COMMISSIONER LEFLEUR: Thank you for that
17 clarification. Raja?

18 MR. SUNDARARAJAN: We do have a concern about
19 this being made public. I know Peggy was talking about as
20 part of transparency. I think transparencies of the RTO I
21 think they are fully open to sharing all of the information
22 to RTOs. The fact that most of these bids have significant
23 confidential information because of negotiated vendor
24 contracts. In terms of materials and pricing of materials,

all

25 pricing of equipment, if those do become public that
becomes

1 a significant issue for us.

2 On the other hand, we are open to some kind of a
3 confidential information sharing process, same thing we
have
4 with PJM RPM program where state regulators and regulators
5 have access to information. State regulators and federal
6 regulators have access to confidential information so they
7 had the transparency that was needed as opposed to
8 everything made public.

9 COMMISSIONER LEFLEUR: Stu?

10 MR. NACHMIAS: Just quick. Paul said the
11 developer should propose its ROE and other attributes in
the
12 ISO process. I'm not sure how that would work frankly
13 because I think a developer would propose what it would
14 request but the ISOs are not going to run a process like
15 FERC with all of its stakeholders coming in and the
16 adjudication of an economic regulators. I'm not sure how
17 the ISOs even value that in their process.

18 COMMISSIONER LEFLEUR: But it could be an upper
19 half of the developer said I want a request above this.
20 Peggy?

21 MS. BERNARDY: Just to clarify. Of course we
22 understand the need for confidentiality. We sign
23 nondisclosure agreements and abide by them. We would
expect
24 some kind of process like that.

25

Just real quickly. All I'm saying is that I

1 think developers can be very creative when it comes to
2 ratemaking and risk reduction and cost containment and all
3 those things and if you wait for that after the process is
4 created you lose that creativity at the front end.

5 COMMISSIONER LEFLEUR: Thank you. I'm going to
6 indulge in one more question because I've had it since the
7 last Panel. One type of incentive that we have asked for
8 once is an incentive to give greater certainty, like either
9 Mobile Sierra protection for a certain rate where it has a
10 higher burden to overcome to change that ROE or rebuttable
11 presumption going in to the process that something was just
12 and reasonable.

13 No one on this panel, which is the incentives
14 panel has argued for that, but in the sort of speak now or
15 forever hold your peace model. Is that something you think
16 should be on the table? It was something we got in the
17 pre-filed comments as a proposal. Lawrence?

18 MR. WILLICK: I think a rebuttable presumption
19 does have some attractiveness and I think there are
20 standards and precedent for that approach. I think the
21 problem with it for competitive transmission or at least
the
22 processes as they are now is that not necessarily the
lowest
23 cost, least risk, most certain from a cost-perspective for
24 ratepayers, the proposal is what's selected. For example,

25 in MISO and SPP the way the point system is you know the
SPP

1 project selected didn't have any risk mitigation or cap and
2 so I don't know that that proposal then would have a
3 rebuttable presumption because it came out of that process.

4 COMMISSIONER LEFLEUR: Thank you. Raja? Let's
5 go down and then I'll give my time to Norman and shut up.
6 Let's go down with these cards that are up.

7 MR. SUNDARARAJAN: From the AEP's point of view,
8 we fundamentally view these as still traditional regulated
9 transmission projects with voluntary bids being submitted
10 order for a chance to win these projects. We believe that
11 any change in the construct of Mobile Sierra or rebuttable
12 presumption would fundamentally alter the risk allocation
13 between the developers and the regulators in this case and
14 we are opposed to that concept.

15 COMMISSIONER LEFLEUR: Thank you. Joe?

16 MR. KELLIHER: I mean, we'd be conformable with
17 a rebuttable presumption than with an ROE in a cost
18 contained bid is reasonable. We haven't, I wouldn't throw
19 out Mobile-Sierra because it's different dynamic than a
20 bilateral contract so I would not say it should have that
21 kind of Mobile Sierra level of deference.

22 COMMISSIONER LEFLEUR: Thank you. Peggy?

23 MS. BERNARDY: Yes, there's a lot to say about
24 these various proposals but I think the bottom line is our
25 position would be that these kinds of proposals would be

in

1 inconsistent with the federal power act and the
Commission's

2 duty is to conduct a just and reasonable review.

3 COMMISSIONER LEFLEUR: Okay. Thank you very
4 much.

5 CHAIRMAN BAY: Thank you, Cheryl. I want to
6 thank our panelists for a really lively discussion, a very
7 thoughtful discussion, one with views really spanning the
8 spectrum. My question really is one that I think has been
9 raised by all of my colleagues in one form or another and
10 that is what advice do you have for the Commission in terms
11 of how we hit the proverbial sweet spot. Stuart mentioned
12 that and I think Peggy did as well.

13 Assuming that we want to promote the development
14 of transmission, we certainly recognize the value of
15 infrastructure and we recognize the importance of
regulatory
16 certainty, the way which incentives can help promote the
17 development of infrastructure but we also want to ensure
18 that at the end of the day rates remain just and
reasonable.

19
20 So while competition clearly can be helpful in
21 driving innovation and efficiency in cost containment, it
22 sounds like it can be very helpful, I've heard at least
over
23 the last day and a half some caveats. For example that
cost

24 containment measures can have lots of exemptions, they can
25 have as Stuart put it "off-ramps", that there can be this

1 request for favorable rate treatment including some sort of
2 presumption as to what the ROE should be and that there
3 could be other incentives that should be considered or even
4 granted in advance by the Commission.

5 So how do we know at the end of the day were we
6 to accept all of that that the transmission is being built
7 in a way that reflects a just and reasonable approach? What
8 advice do you have for the Commission in terms of how we
9 should consider these proposals to hit that regulatory

sweet

10 spot? Joe?

11 (Laughter)

12 MR. KELIHER: I mean, that's a great question.
13 Part of the difficulty is cost containment can take many
14 different forms. Right, so you look at the extreme case,
15 not the extreme, but the pure case where someone has bid in
16 all their capital costs and it's absolutely fixed and there
17 is no off-ramps and they have essentially said and they

also

18 have a negotiated ROE. We're essentially saying "I will
19 build this project for X and I'll eat everything above X if
20 I get this ROE. Part of taking the ROE out and lowering it
21 seems an unfair outcome but you'll have many other versions
22 where some of the costs are stated and there are off-ramps.

23 Should the Commission put out its preferred and
24 exclusive form of cost containment? Should it let a

25 thousand flowers bloom in how cost containment arises? I'm

1 not sure that the Commission is at a point and in a
position

2 where it could say "this is the one form of cost
containment

3 that will result in just and reasonable rates and effective
4 competition." So it seems like you're more necessarily in

a

5 let a thousand flowers bloom mode towards the regions.

6 Now, what kind of direction can you provide the
7 regions? Are you in a position where you can say "we don't
8 like this" at least some negative direction. I'm not sure
9 there's been enough proposals that you've dealt with where
10 you can say that. In terms of you either have to accept,
11 you're going to have to start ruling on some of these
12 proposals as they come in and the difficulty will be how do
13 you decide after the fact whether the policy's working and
14 those were the correct calls or not?

15 I would think one measure would be if
competitive

16 transmission withers on the vine, then maybe your policies
17 were not the best but at that point it might be difficult

to

18 unwind the effects of your decisions. I mean I would think
19 the reverse is sort of true. If competitive transmission

in

20 new entry is vibrant, if kind of what we're seeing in
21 California ISOs spreads to multiple regions, I think with
22 cost containment. I thought cost containment would arise

23 with Order One Thousand. I didn't realize it would arrive
24 so quickly, at least in Cal ISO.

25 If I were with the Commission I would say I want

1 what's happening in CAL ISO to happen in more regions and I
2 also would probably want if you look at regional
3 transmission plans and you look at what's the sliver that's
4 available for competition? In some regions it's a pretty
5 small sliver. I'd want that piece of the pie to be
probably
6 larger than it is now. There is things the Commission can
7 do to increase that slice of the pie.

8 I would want competitive transmission, I would
9 realize it's going to push costs down. I would probably be
10 discretionary toward the regions because I don't think
11 you're in the position to say "this is formula X on cost
12 containment" and I want the slice of pie available for
13 competition to get larger and then watch if people stop
14 bidding. If you're left with the incumbents then Order One
15 Thousand will have failed.

16 CHAIRMAN BAY: I have to pause every time I hear
17 the phrase "let a thousand flowers bloom" in the context of
18 a FERC-related discussion. It's a phrase that's used
fairly
19 often here, but of course if you're a student of history
you
20 know that period in Chinese history is followed by the
21 cultural revolution,

22 (Laughter)

23 Which was not so helpful to the thousand flowers
24 that had blossomed. So anyway, Peggy.

25

MS. BERNARDY: When you talk about a thousand

1 flowers, somehow the phrase that's been going through my
2 mind thinking about this topic has been death by a thousand
3 cuts because there were so many charges and incentives that
4 you know, which is the incentive and which is the incentive
5 and which is the rate that we should really be focused on
6 and there are just so many of them. Each of them is just a
7 little bit more than we want to spend and so that's one of
8 the problems.

9 How to hit the sweet spot? I would say start by
10 do no harm as we heard yesterday I think that Commission
11 should resist the urge to standardize as that might be
12 calcified and set in stone for perpetuity. That is a risk
13 to us. I am confident that the Commission has the
14 ratepayer's interest at heart. I just note that on panel
15 today there is one ratepayer speaker and I think often you
16 do hear a lot from ratepayers. I mean you don't hear as
17 much from the ratepayers as from the developers and keep
18 that in mind as you're considering what you should be
doing.

19
20 We are satisfied that the ISO competitive
process
21 is probably working quite well now as best as it can. We
22 would like to see more transparency at the ISO level as
well
23 as in the settlement process effort. Thank you so much.

24 CHAIRMAN BAY: Thank you, Peggy. Paul?

25

MR. DUMAIS: I would think that the Commission

1 could do two things that would be helpful. One is to make
2 it clear in the process where FERC comes in. because you
3 know, like PJM said we think FERC should come in before the
4 solicitation is done. You know, I've been saying it should
5 be after, like sort of happens today but I think that's one
6 area that you can lend clarity to the process.

7 The other is, amending the 2012 policy statement
8 to bring Order One Thousand into it and the kinds of
9 considerations that the Commission would have with risk
10 producing and ROE incentives in light of Order One
Thousand.

11

12 CHAIRMAN BAY: Thank you. Stuart?

13 MR. NACHMIAS: So I think it's important to get
14 ahead of the issues way before the flowers or leaves die on
15 the vine. Yes, as Joe said earlier, cost containment
16 provisions came up really as a way for developers to
17 differentiate in the competitive process. So I think it's
18 important for there to be flexibility but for the
19 Commission to say that there's a framework.

20 I think it was Craig yesterday who said
planning,

21 the L in planning is for litigation. I think we want to
try

22 to avoid unnecessary litigation because that's going to
23 bring risks to developers in terms of what is recoverable,
24 what is not recoverable even in a cost-containment bid and

25 that is not going to be good.

1 Maybe a policy objective of shared risks that is
2 not all on the customers, that developers are taking no
some
3 risks and the way to achieve that, whether it's cost
4 containment over clarity over what's included or not
5 included, or whether there's an option you know in what at
6 least what we have been suggesting, some sort of
performance
7 incentive where maybe you don't worry about that as much
but
8 you just basically give some sort of incentive or
9 disincentive to manage the cost.

10 That happens at FERC but then maybe you don't
11 have to worry about so much litigation over what's in and
12 what's out. Because I think that's really where the
13 rubber's going to hit the road. I think what FERC's
14 objective should be is shared risk and not too much risk,
so
15 much risk on the developer that the one overrun that's 50
16 percent of the cost that has to be absorbed, that developer
17 is just going to go bankrupt and then investors from that
18 point forward are going to hesitate. So I think that
19 balance has to be reached and trying to get ahead of it
will
20 be really important.

21 CHAIRMAN BAY: Raja.

22 MR. SUNDARARAJAN: Yes, I think from AEP's point
23 of view, I think we believe to the extent the Commission

24 can provide up front clarity and the non-ROE incentives

25 would go a long way in terms of the crafting of bids. With

1 respect to the issue of cost containment and the interplay
2 between incentives and ROE we fundamentally believe that
you
3 can only proceed on the path once you get more evidence
4 because right now we have no evidence of how much cost
5 containment is actually part of the evaluation process.

6 In the case of a sponsorship model it might be.
7 It might be a very small role in certain cases. In certain
8 cases when you have multiple sponsors bidding on very
9 similar ideas, then cost containment becomes a predominant
10 role. Even in California in certain cases where we have
11 substation projects. We have a clear defining scope, we
12 have cost in our bidding, developers are bidding cost, with
13 limited hours. That I think it's in our opinion it's a
14 project-specific issue which are not, in our opinion cannot
15 be translated to other generic rule-making or policy-making
16 in our opinion.

17 We strongly believe yes there is role for
18 interplay between cost-containment and ROE, it's just that
19 it's not, I don't think that you have enough evidence so
20 that it can actually be imposed on every project, in every
21 process and through all the United States. To that extent,
22 exactly
23 each developer can provide the evidence that this is
24 what they went through in the Commission.

CHAIRMAN BAY: Thank you, Raja. Lawrence.

25

MR. WILLICK: Sure, I think the sweet spot could

1 change over time and I think really the question is whether
2 the balance between having competitive pressure on the one
3 hand, trying to lower costs and for rate-bearers and risks
4 for rate-bearers and on the other hand the need for
5 developers to have a risk premium to account for that risk.

There

6 So I think today that sweet spot is a cap.
7 is traditional costs and service regulation, then there's a
8 cost of service regulation with a cap and there's no risk
9 premium with a cap because there's an estimate, there's
10 contingency with a capped amount but to the extent the
11 come in lower than the cap, it's the actual cost and then
12 the extent it's higher than the cap, then it's the cap so
13 there's clear benefits to rate-bearers for overrun
14 protection.

some

costs

to

15 There's clear benefits in the planning process
16 because the planners know well this project I'm looking at
17 is not going to cost more than this amount. But then if
18 kind of take it another step and say well, there should be
19 an ROE adder for having that additional risk or having
20 an ROE at the high end of the range, well then maybe you
21 kind of left the sweet spot because now there's a risk
22 premium that you're not necessarily sure is commiserate

you

being

with

23 the higher level of risk.

24 Then, kind of going another step to some sort of

25 shared savings that are performance-based rates, the

1 question then comes back to well, where is that level set?
2 It is set too high, or high enough that in the base case
3 there's kind of an additional earning that might not be
4 and reasonable. Then even another step to a fixed revenue
5 requirement. Now the fixed revenue requirement includes an
6 implied return on equity and capital structure and a cost
7 for debt that's going to be raised you know several years
8 out from the date of the bid and O&M, well then there's a
9 lot of risk premiums in that fixed revenue requirement.

just

10 It's difficult to say that that's going to be
11 just and reasonable especially in a process where cost
12 the primary evaluation factor.

isn't

13 CHAIRMAN BAY: Joe?

14 MR. KELLIHER: Just a short comment reacting, as
15 Stuart mentioned litigation and that's one way the
16 Commission will develop its conviction, its policy on how
17 address competition and the Commission has been very
18 deferential to the regions on Order One Thousand, taking
19 some different approaches, but for example if at some point
20 the Commission just in litigation will say "yes, you know,
21 we like this" and if "this" doesn't exist in three regions
22 the Commission should adopt that policy in those three
23 regions.

to

24 One example would be should cost be a primary

25 factor. How much weight should cost have and it seems in a

1 competitive dynamic cost should have a pretty high rate or
2 arguably be the primary factor. If the Commission ends up
3 deciding that, not every region does that, the policy of
the
4 Commission will develop but then it, I think should in turn
5 require that regions conform to its policy once it decides
6 what it likes and what it wants, what it thinks works.

7 CHAIRMAN BAY: George.

8 MR. DAWE: Thanks. I just wanted to say, I
agree
9 with Lawrence. The sweet spot will change over time so I
10 mean the message would be don't do anything to discourage
11 the participation of developers. I mean, you, up until
this
12 point, you haven't had the innovative ideas or the
struggles
13 with cost containment in how low can you go. These are
good
14 problems for consumers. So to the extent you can provide
15 the clarity that's necessary in the process for developers
16 to get comfortable, stay comfortable. You'll have the
17 competition that I think you want and consumers certainly
18 benefit from.

19 CHAIRMAN BAY: So this will be my last question
20 and it's open-ended and that is whether you have any final
21 words of advice for the Commission and if you could
22 summarize, if you wanted to leave us with a single, kind of
23 key takeaway point, what would it be. I think I know what

24 Peggy and George said based up on your remarks in the last

25 go round but certainly you can feel free to either
reiterate

1 it or to tell us something else.

2 MS. BERNARDY: I'll just keep it short. I think
3 we really appreciate the Commission's attention to
4 cost-effectiveness.

5 MR. DAWE: I'll be equally short. More
6 independence in the evaluation process would be an
7 incredible help to the industry.

8 MR. DUMAIS: I think providing principles and
9 guidance is the way to go as opposed to a real prescribed
10 way because I think what I've seen and what I'm hearing my
11 colleagues say too is that there's a lot of creativity and
12 innovation out there with projects but then also with cost
13 containment and ratemaking and returns and all the other
14 elements too. Thank you.

15 SPEAKER: I think the Commission should
recognize
16 the disconnect between its policy of supporting competition
17 and promoting competition and its current rate policies and
18 it should act in some manner to remove the disconnect.

19 MR. NACHMIAS: I think what I would add is that
20 in addition to all the other issues you've heard, that the
21 Commission should consider in its policy a performance
based
22 incentive that would encourage the management of projects
to
23 the costs that are proposed and competitive solicitation
24 processes.

25

MR. SUNDARARAJAN: From our point of view,

1 certainly affirmed clarity of non-ROE incentives would go a
2 long way. Secondly, additional clarity in terms of RTOs
3 evaluating projects primarily capital costs as opposed to
4 cost of capital would also go a long way because I think
5 these are right now in absence of clarity, developers
6 proposed various ideas and RTO is confused in terms of how
7 to look at it. So to that extent, the Commission can guide
8 these elements of the RTO.

9 I think the transparency should automatically
10 with this because the more transparency you can provide the
11 RTO in terms of evaluation, RTOs will take that and
12 implement them in terms of their evaluation process. right
13 now, the confusion lies in both of these aspects because
14 right now the RTO is looking for your guidance and I think
15 you're looking at RTO to provide the guidance so to that
16 extent you can provide guidance to the RTOs. In our option
17 that goes a long way.

18 MR. WILLICK: I think a focus on cost in the
19 planning process is you know, part of what drove Order One
20 Thousand and a continued focus on cost can help ensure both
21 the best outcome for ratepayers but also allow the market
22 move towards having more cost-certain and risk mitigated
23 proposals.

24 CHAIRMAN BAY: Well, I'd like to thank all of

to

our

25 panelists for just a really thought-provoking discussion.

shared 1 We very much appreciate all of the suggestions you've
2 with us. At this point we will break until, we'll take an
3 early lunch. I think we can reconvene at 12:15? Is that
4 right? alright, thank you everyone. We will see you at
5 12:15 for Panel No. 4.

6 Break 10:59 a.m.

7 12:20 p.m.

8 CHAIRMAN BAY: Well, good morning everyone.
9 Let's go ahead and get started. This will be our fourth
10 panel which will focus on interregional transmission
11 coordination issues. I want to thank all of our panelists
12 for being here today and we very much look forward to
13 hearing your comments on interregional transmission
14 coordination. So without further adieu let's go ahead and
15 get started with John from NISO.

16 MR. BUECHLER: Thank you Mr. Chairman and
17 Commissioners and thank you for the opportunity of being
18 here today to talk about interregional planning issues. My
19 name is John Buechler. I'm the NISO's Executive Regulatory
20 Policy Advisor and I have had primary responsibility for
all 21 of the major NISO planning processes that have been
22 developed and filed with the Commission including Orders
23 No. 890 and Order No. 1000. I'll be focusing my comments
24 on the coordination of interregional planning with our U.S.

25 Neighbors in the Northeast, PJM and ISO New England. We've

1 been coordinating our planning efforts with them since the
2 NISO inception and in 2004 we actually entered into a
formal
3 protocol to govern that coordination process of the
4 Northeast RTO planning coordination protocol which I will
5 give credit was based upon a similar agreement between PJM
6 and MISO in this formation.

7 Existing protocol meets all of the requirements
8 of Order No. 1000 and in fact succeeds those in several
9 notable ways. First of all in providing for a multilateral
10 interregional planning coordination effort for having a
11 joint interregional planning committee comprised of the
12 three ISO regions, having a dedicated stakeholder advisory
13 process and having the results of the activities that are
14 documented in a periodic report typically every two years
15 called the Northeast Coordinator System Plan. Finally when
16 providing for coordination interconnection to requests as
17 well as transmission service requests and may have impacts
18 among the three regions.

19 Since we're kind of switching topics here from
20 the previous panels over the past couple of days, I thought
21 it might be helpful to remind everyone of the key
22 requirements of Order No. 1000 with regard to interregional
23 planning. The first of which is at the foundation of the
24 regional planning process lies with the regional planning
25 processes of the respective regions. In that a potential

1 regional project must be first proposed by the developer
2 into the regional planning processes of the respective
3 regions, at that point a joint interregional analysis
4 process kicks off among the regions involved and finally in
5 order for an interregional project to be eligible for its
6 original cost allocation it must be selected in the
7 transmission plans of the respective regions. That's the
8 framework.

the
9 We believe that this explicit linkage between
10 regional transmission planning processes and the
11 interregional coordination process provides for a
12 coordinated and joint and coordinated information and
13 transparency and analysis to a lot of stakeholders in those
14 respective regions to make a determination as to whether an
15 interregional project could be or might be more cost
16 efficient or effective than regional solutions.

the
17 This, in answer to one of the questions, we
18 believe this process should facilitate rather than delay
19 potential selection of interregional transmission project.
20 Simply put, without at least two willing parties, it's
21 unlikely that an interregional project will proceed. In
laid
22 addition, NISO believes that this process and structure
23 out in Order No. 1000 is appropriate and furthermore
24 consistent with Order No. 1000 interregional cost

25 allocation principles which provide that there should be no

1 involuntary allocation of costs to a region which does not
2 receive any benefits and does not choose to accept those
3 costs.

4 I'll get to the implementation status within the
5 Northeast. The ISOs and RTOs proposed, proposed as to a
6 stakeholder process that the protocol would be used as a
7 central point for its compliance filing for Order No. 1000
8 and the protocol was in fact amended to provide for the
9 regional and interregional linkage I just mentioned and
also
10 to provide for an ex ante interregional cost allocation
11 methodology. Following extensive stakeholder policy which
12 involved both our regional stakeholder groups as well as
the
13 interregional committee existing already under the
protocol,
14 we filed our concurrent compliance filings, the three ISOs
15 that is, in July of 2013 and received a final compliance
16 order from the Commission November of 2015.

17 MR. TOBENKIN: Please try to conclude your
18 remarks.

19 MR. BUECHLER: Okay. In the Northeast
20 Coordinated System Plan that was issued just several months
21 ago, that plan focused on the implementation efforts that
22 were made during 2014 and 2015 to implement the
requirements
23 or Order No. 1000 as well as other key issues of

24 interregional planning among the Northeast ISOs and RTOs.

25 In summary, the NISO supports the Commission's goals on

1 Order No. 1000 to incent the development of transmission by
2 implementation of the competitive process to stimulate as
3 we've heard before, innovative solutions that provide
4 benefits to consumers.

5 Transmission is needed in New York to replace
6 aging infrastructure and facilitate Federal and State
policy
7 initiatives to deliver the benefits of cleaner, renewable
8 resources, among other policies to all parts of New York
9 State and the region. So thank you, I look forward to
10 participating in discussions.

11 MS. CURRAN: Good afternoon. I'm Jennifer
12 Curran. I'm MISO's Vice President of System Planning and
13 Seams Coordination. I appreciate the opportunity to be
here
14 today to talk about interregional planning issues.
15 Identifying and building appropriate transmission is more
16 important than ever given the changing resource mix to
17 ensure system reliability, efficiency and overall
18 flexibility. Improved interregional planning is a critical
19 component of maximizing the value of the transmission
system
20 for the benefit of driving savings for customers.

21 The Order No. 1000 process provide a good
22 compliment and expansion to the routine coordination that
23 happens already between neighboring utilities and regions,
24 such as the coordination which enabled MISO and PJM to

25 identify the Duff Coleman Project somewhat recently, which

1 while not an Order No. 1000 cost-allocated project, was a
2 coordinated project that we were able to approve to jointly
3 meet our perspective system needs.

4 Although a great deal of progress has been made
5 under Order No. 1000, more time is needed to realize the
6 true potential of interregional planning. In part, this is
7 due to the required evolutionary processes that are needed
8 to align practices among regions that had had historically
9 different approaches to transmission planning, transmission
10 operations and transmission cost allocation.

11 Among other things, trying to reconcile these
12 differences has most often led us to focus on our existing
13 common ground and short-term needs. Most often this leads
14 to discussions of projects that are already identified in
15 the regional plans and are expected to pursue in the
16 regional plans irrespective of interregional action. In
17 order to see the value from interregional transmission
18 investment, we believe regions will need to embark on some
19 longer term looks, starting with joint assessment of
20 interregional needs, which is likely to be a multiyear
21 process from identification of the need to the transmission
22 solution of the approval.

23 Focusing on these longer-ranged needs offers the
24 opportunity to drive value for customers by identifying
25 projects that would not have otherwise have been identified

1 absent coordinated interregional planning. This is an
2 approach we're currently exploring with SPP which is not to
3 say there should be no focus on short-term needs. Our
4 experience with PJJM has shown us that there are some gaps
5 between our regional tariffs that reflect regional
6 operational scenarios across the seam. New standalone
7 interregional planning and cost allocation protocols such
8 the targeted market efficiency project we're working on now
9 can help fill those gaps with appropriate transmission
10 solutions. In the end, we want to ensure that MMISO, our
11 neighbors and our collective stakeholders have the bulk of
12 our resources dedicated to interregional planning, focused
13 on the identification of the new and more efficient
14 transmission solutions.

as

15 To that end, while we do not see the need for
16 Commission action at this time, we would ensure the
17 continued monitoring of the processes to ensure the
18 interregional focus is on improving upon our interregional
19 plans for the identification of valuable infrastructure.
20 Finally, in order for customers to capture the benefits
21 identified in the robust interregional process, the
22 operations of the seam must also ensure efficient
23 and remove barriers to more efficient transactions along
24 the seam.

operations

the

25
encourage

We hope the Commission will continue to

1 developing of operating best practices to allow for more
2 efficient use of transmission infrastructure and generation
3 resources. Thank you.

4 MR. DESHAZO: Good afternoon Mr. Chairman and
5 Commissioners. My name is Gary DeShazo and on behalf of
the
6 California ISO I want to thank the Commission for the
7 opportunity to participate in this technical conference on
8 Competitive Transmission Development. The continuing
growth
9 of renewables in the West is actually informing regional or
10 interregional transmission planning. This has created a
11 valuable opportunity for the California ISO to utilize
Order
12 No. 1000's framework to coordinate with the other Western
13 planning regions and to consider what benefits in a
regional
14 coordination or interregional transmission may bring to our
15 respective regions.

16 Four interregional transmission projects have
17 been submitted to the California ISO and three of those
were
18 submitted to NTTG and WestConnect. Through Order No. 1000
19 protocols, these planning regions have coordinated
20 preparation of evaluation process plans for each of the
21 submitted projects to ensure the planning regions achieved
22 consistent planning assumptions and technical data within
23 our own regional processes. The California ISO intends to

24 study these interregional transmission projects in the
25 context of our 50 percent renewable portfolio standard

1 special studies in our 2016 and 2017 transmission planning
2 process.

NTG

planning

arrangements

3 This will provide an opportunity for the ISO,
4 and WestConnect to coordinate interregional studies during
5 this interregional coordination cycle. The Western
6 regions are about to complete the first quarter of our
7 2016/2017 interregional planning cycle. our decision to
8 file a joint tariff was the right approach for us. Pairing
9 would have necessarily dictated separate tariff
10 between the pairs of planning regions which could have
11 created possible conflicts between the planning region
12 pairs.

13 The California ISO acknowledges that Order No.
14 1000 was intended to lead the identification and
15 construction of better transmission projects, to meet
16 reliability, economic and public policy needs. It has been
17 suggested that further improvement or reforms are needed to
18 address certain concerns that have arisen since Order No.
19 1000 was finalized. The California ISO suggests that we're
20 far too early in the interregional coordination process to
21 determine whether immediate action by the Commission to
22 improve on the order that we now have in place is needed or
23 not.

with 24 The Western planning regions are now dealing
25 their first interregional planning project proposals and

1 more importantly are becoming more familiar working with
2 each other such that changes to the process before it
3 actually has an opportunity to mature, would likely derail
4 our ongoing efforts of implementing interregional
5 coordination in the West. The Commission should wait until
6 the current coordination cycle and possibly the next is
7 complete before considering any modifications to the
8 process.

9 So in closing, the ISO supports Order No. 1000
10 and we look forward to a continued working relationship
with
11 the other Western planning regions to see a successful
12 interregional coordination process established. This
13 concludes my remarks and thank you very much for the
14 opportunity to participate.

15 MR. GALBRAITH: Chairman Bay, Commissioners and
16 Staff thank you for inviting me to participate in today's
17 technical conference. My name is Maury Gallbraith. I'm
the
18 executive Director of the Western Interstate Energy Board
an
19 organization of eleven Western States and three Canadian
20 Provinces. My remarks this afternoon are going to be
21 focused on the identification and assessment of the need
for
22 regional and interregional transmission facilities in the
23 West.

24 I have two short takeaway messages for you
today.

25 The first is that the long staple approach to regional

1 transmission planning used by several of the planning
2 regions in the West is insufficient to establish the need
3 for regional transmission projects in the West.

4 The second takeaway is that the arm's length
5 approach to interregional coordination used by all of the
6 planning regions in the West is insufficient to establish
7 the need for interregional transmission projects in the
8 West. Let me first turn to the long staple approach to
9 regional transmission planning.

10 The first step used by multiple planning regions
11 in the West to construct a regional transmission plan is to
12 gather and combine the generation and transmission projects
13 included in each of their funders' local transmission or
14 integrated resource plans. The data, enabling assumptions
15 and scenarios that supported these projects at the local
16 level, however, may lack consistency and coherence when
17 viewed from the regional perspective.

18 For example, regional economics may not support
19 each local utility constructing generation and selling
20 excess power into the wholesale power market without a
21 significant price response or without energy curtailment.
22 The need for regional transmission facilities cannot be
23 established solely on local utility integrated resource
24 plans. It must be established on the basis of robust,
25 independent and transparent analysis at the regional level.

1

2 Let me now turn to the arm's length approach to
3 interregional coordination. A similar problem exists when
4 the planning regions rely on regional transmission plans to
5 assess the need for interregional transmission projects.
6 The data enabling assumptions and scenarios used at the
7 regional level may lack consistency and coherence when
8 viewed from an interregional or an interconnection-wide
9 perspective.

10 For example, one region may proposed that an
11 interregional transmission project is beneficial because it
12 will relieve congestion on a historically constrained path.
13 The other region however may conclude that the same project
14 is not needed or beneficial because significant deployment
15 of distributed energy resources within the region will
16 obviate the need to relieve the congestion. Robust,
17 independent, transparent analysis at the interregional,
18 interconnection-wide level is needed to reconcile and
19 resolve these types of differences.

20 The interregional coordination procedure used by
21 all the planning regions in the West is not equivalent to
22 interregional or interconnection-wide planning and should
23 not be considered an adequate substitute. The coordination
24 is arm's length and does not provide a transparent record

or

25 source of information or analysis that state policymakers

1 and regulators can use to evaluate the need for
2 interregional transmission facilities.

3 Commissioners and fellow Panelists, thank you
4 again for this opportunity to speak at today's conference.
5 I look forward to our continued dialect. Thank you much.

6 MR. GAW: Good afternoon. My name's Steve Gaw.
7 I'm here on behalf of the Wind Coalition and AWIA, I

consult

8 with both. I primarily work in the Southwest Power Pool
9 in regional and intraregional work on transmission which is
10 one of my areas that I deal with.

and

11 I want to thank you first of all for allowing me
12 to speak today and express my appreciation to this
13 Commission for its leadership on transmission issues and
14 fact that you are willing to hold this technical conference
15 at this point. We are in the midst of dramatic change in
16 the way that we generate and consume electricity I this
17 country. For the last several years new generation have
18 been made up primarily of new gas and new renewables
19 replacing older fossil fuel units that are being retired.

the

20 The Clean Power Plan may be in litigation but
21 change is occurring regardless of the outcome. The
22 Commission deserves to be complimented for its vision in
23 adopting Order No. 1000, tackling the barriers to the
24 construction of transmission infrastructure. It is now

25 clear that Order No. 1000 was a step forward but that in

1 order to address the needs of this new era more must be
2 done.

3 Considering the time it takes to plan and
4 construct transmission, it is important to act soon if
5 adequate tools are to be available for us to
6 cost-effectively meet this new era for the benefit of
7 consumers. The Order No. 1000 in the regional provisions
8 are not producing the transmission that was envisioned by
9 the order. Contrast this with the fact that several
studies
10 over the last few years show that a backbone and delivery
11 high-voltage system that integrates significant renewable
12 generation is the most cost-effective way to transition to
a
13 low-carbon future.

14 EIPC, EWITS and JCSP all produce those results.
15 To be able to construct a grid flexible enough to meet
these
16 future needs, the interregional provisions of Order No.
1000
17 should be strengthened. Some of the revisions that I would
18 like to see considered are standardization of minimum
19 benefits that are calculated for economic reliability and
20 policy benefits. This allowing the labeling and
economic
21 categorization of projects into silo reliability or
22 projects so that you don't count all the benefits that
23 actually are being brought by those new bills.

24 Require periodic interregional planning that
25 incorporates good planning methods and that is designed to

1 produce a flexible grid capable of meeting a variety of
2 futures. The adoption of rules, of regional planning in
3 Order No. 1000 and cost allocation into the interregional
4 provisions of Order No. 1000. A synchronization of
5 interregional planning with the regional planning cycles.

be

6 Also, interregional needs and solutions should
7 evaluated. Multiregional planning should be periodically
8 required to allow the assessment of large backbone and
9 long-haul transmission needs and solutions across multiple
10 regions. This can simple not be done in a region when you
11 just look at the regional needs across one boundary to
12 another region.

case.

13 We also need to look at what we can do on
14 solutions that are feasible that are looking at multiple
15 regions, not just two regions together. Elimination of
16 procedural hurdles and limitations that have plagued the
17 first rounds of interregional planning. There are a number
18 of them. Some of them have been addressed in a recent
19 I think it's important in looking at all of this just to
20 examine where we are today. We're in the midst of huge
21 change. We need to have the tools to address it.

input

22 I ask that in light of all these issues, FERC
23 consider holding further technical conferences to seek
24 for further development of these and other concepts that

25 would provide us the tools needed to plan and construct a

1 grid capable of meeting the needs of the new era, have
2 electricity consumption and production in the most
3 cost-effective manner for consumers. Thank you and I look
4 forward to your questions.

5 MR. KRAMER: Good afternoon Mr. Chairman and
6 Commissioners. I am Dennis Kramer and I appear today on
7 behalf of the MISO transmission owners. We welcome the
8 Commission addressing interregional transmission
9 coordination through the technical conference. While Order
10 No. 1000 is almost five years old, it's important to note
11 that the Order No. 1000 transmission planning enhancements
12 initially focused on the regional process. the Commission
13 correctly afforded additional time for the creation
14 implementation of the interregional processes and filings.

15 Therefore, the Commission should recognize that
16 interregional transmission coordination processes are in
17 various stages of implementation and development across the
18 country. Therefore it is premature to draw any significant
19 conclusions at this time regarding whether interregional
20 coordination procedures will ultimately be effective in
21 achieving the goals of Order No. 1000.

22 Regions like MISO have been actively engaged in
23 interregional coordination for many years using their joint
24 operating agreements and other agreements. Therefore we
25 believe that using pairs of neighboring regions continues

to

1 be the most appropriate geographic scope for performing
2 interregional planning. This also is due to the fact that
3 several of the regions are very large geographic size and
4 that some problems that may appear on one seam may be very
5 different on the other seam.

6 While extensive interregional coordination has
7 improved and has occurred, we do believe that there are
8 improvements that can be made. Better scheduling and
9 coordination of timelines, studies, schedules, stakeholder
10 input and reporting could improve efficiency and
11 effectiveness. We also believe that eliminating any
12 duplication of efforts of studies could also be beneficial.
13 This also points out that there is a need for improved
14 coordination but it has to recognize that there are
regional
15 differences in resource mix, market structure and
16 stakeholder composition and the Commission should continue
17 to accept and reinforce those regional differences.

18 In summary, the interregional transmission
19 coordination requirements have positively affected how
20 neighboring transmission planning regions coordinate and
21 communicate. However, while continued improvement is
needed
22 to ensure that the full potential benefits of interregional
23 coordination are achieved, we do not believe that
24 significant new regulatory action by the Commission is

25 needed at this time to facilitate that improvement.

to 1 The regions and the stakeholders will continue
2 examine their processes and procedures for potential
3 improvement and the Commission should be open to those
4 filings to implement the improvements. Thank you. I look
5 forward to any questions you may have.

6 MR. MCKEE: Good afternoon, I'm Bob McKee of
7 American Transmission Company and I'm also the President of
8 the Wires Group. Today I represent the Wires Group on this
9 Panel and though admittedly my Midwest roots will come out
10 in my examples, my comments are generally applicable.

11 First, I would like to say thank you for
12 conducting this conversation and including Wires in it. So
13 from Wires perspective, though the group appreciates the
14 efforts to date of the RTOs, ISOs, other transmission
15 providers, Wires believes it is appropriate for the
16 Commission to look into why projects are not being
developed 17 under the Order No. 1000 and interregional processes to
18 consider why and to consider whether further guidance is
19 needed.

20 Wires believes this evaluation of interregional
21 transmission coordination is important particularly at this
22 point in time, as has been pointed out already by the other
23 panel because of the shift already occurring in the U.S.
24 Generation mix that is being driven by such factors as

25 environmental regulations and market forces. The ability

1 for customers to have access to resources across regions
2 enabled by interregional transmission facilities is
critical
3 to making this transition in the most cost-effective
manner.

4 As addressed in a recent whitepaper written by
5 the Bradler Group for Wires, our organization is concerned
6 that interregional planning efforts are still not resulting
7 in the development of projects that will provide customers
a
8 broad set of reliability, economic and public policy
9 benefits across regions. We have pointed out a couple
10 potential areas, or a couple potential barriers to look
11 into.

12 One is the evaluation of project benefits.
13 Another potential barrier to look into is how regions
14 consider the interregional analyses that are done per Order
15 No. 1000 in their evaluation of including that
interregional
16 project in their regional plans. So not only, we'll just
17 wrap this up really quick, not only do we believe that
18 reducing obstacles to developing interregional transmission
19 facilities will be critical to accessing the resources
20 across regional boundaries, we also think interregional
21 planning is also key to ensuring that the industry is
22 identifying the transmission facilities that are needed to
23 make the grid both flexible enough that we're not forcing

24 one path in terms of a resource mix over another and also
25 resilient enough that we're prepared for whatever the
future

1 throws at us.

2 Wires looks forward to being part of the
3 conversation today and the important work ahead. Thank you
4 again.

5 MR. MONROE: Good afternoon. My name's Carl
6 Monroe and I'm Executive Vice President and Chief Operating
7 Officer for Southwest Power Pool. I want to thank the
8 Commission for allowing me the opportunity to speak to you
9 about the challenges and opportunities we see surrounding
10 interregional transmission planning and development.

11 SPP is uniquely situated with extensive
12 interconnections in Eastern Interconnection as well as most
13 of the ties to the Western Interconnection, all the ties to
14 the ERCOT and one to a Canadian utility now. Our seam with
15 MISO now extends approximately twelve hundred miles from
the
16 Canadian Border to Eastern Texas and includes over 200
17 interconnections, the vast majority at voltage levels less
18 than 345-kv.

19 In addition to SPP's unique electrical location,
20 we also have some of the best onshore wind resources
21 anywhere in the world. SPP currently has nearly 13
22 gigawatts of installed nameplate wind capacity and 8-10
23 gigawatts of additional nameplate wind capacity that could
24 be in service by 2018. Earlier this year SPP set a North
25 American record for wind penetration levels when 49.2

1 percent of all load and the SPP balancing authority was
2 served by wind.

3 With minimum loads of 20 gigawatts and a peak
4 load demand of approximately 50 gigawatts, SPP's ability to
5 use much more of additional wind will be very limited.

This

6 is where interregional transmission expansion is both an
7 opportunity and a necessity. To date, interregional
8 planning efforts have had little success in the terms of
9 project development. There's three areas that we'd like
10 the commission to focus on and endeavor to explore for
11 improvement.

12 First one is project eligibility criteria. The
13 second one is benefit quantification and the third is cost
14 allocation. These areas are key to effective and regional
15 planning rules and procedures and without effective rules
16 undermine interregional transmission development. For
17 example, some regional planning rules exclude a host of
18 projects from regional cost allocation which makes those
19 same types of project ineligible for interregional cost
20 allocation. This effectively precludes such projects from
21 even consideration despite the incremental operational
22 and/or economic benefits that they can provide.
23 Other rules do not allow a comprehensive set of benefits to
24 be calculated or even considered. Minimizing the types of
25 projects and/or benefits reduces the likelihood that

1 projects cost can be overcome and an equitable cost
2 allocation can be obtained. SPP knows that only agreeable
3 and equitable cost allocation will get projects built.
4 Projects considered should be driven by a whole range of
5 operational and economic benefits not other criteria such
as
6 physical or cost characteristics of the projects; whether
7 it's voltage, mileage or project cost.

8 While the objective nature of these criteria are
9 attractive from an administrative perspective, they may not
10 be meaningful to the comprehensive benefits of a project or
11 can create artificial barriers to beneficial projects that
12 fall outside these criteria. With these current barriers,
13 SPP has proposed alternate processes and cost allocation to
14 move the ball forward without much success. SPP fully
15 supports the Commission's efforts to ensure the most
16 cost-effective, most effective and cost-efficient
17 transmission projects are planned and constructed.

18 We are hopeful and encouraged by the
Commission's
19 interest in further improving interregional planning as
20 demonstrated by this technical conference today. Thank you
21 and I look forward to the questions.

22 MS. WEBER: Good afternoon and thank you for the
23 opportunity to participate in this technical conference.

My

24 name is Angela Weber and I'm a Commissioner at the Indiana

25 Utility Regulatory Commission and I'm also currently the

1 Vice President of the Organization MISO States, or OMS.
OMS

2 follows seams issues including interregional planning very
3 closely because they affect all OMS members. Nearly every
4 jurisdiction in MISO has a seam within or adjacent to it so
5 seams issues are very important to the regulator.

6 More recently seams dialog has become more
7 prominent in OMS because of new entrants into the RTOs.
New

8 seams have been created and new viewpoints have been
9 introduced into the discussion. Thus, OMS began an
10 initiative in May to develop a seams policy for the
11 organization and we hope to finalize it in the next few
12 months and share that with you.

13 Notably not a single interregional transmission
14 project has been approved between MISO and SPP or PJM
15 although lack of projects alone may not be the indicator of
16 how well the interregional transmission rules are working.
17 It may be an indicator that the rules are not producing
18 cost-effective solutions to identified problems. Some OMS
19 members believe the lack of interregional projects is
20 insufficient to support the notion that the current rules
21 and processes are working while some believe it is
22 sufficient.

23 We do agree and believe however that the
24 interregional planning process and rules should not inhibit

25 the construction of beneficial projects that can save money

1 for customers and it should not favor interregional
projects
2 over regional. We also agree that cost allocation for
lower
3 voltage interregional projects should be evaluated as the
4 rules change to ensure not that only beneficiaries pay the
5 cost for these projects.

6 Recently, progress has been made between MISO
and
7 the Southwest Power Pool and PJM to collaborate more
closely
8 for better evaluation of potential interregional projects.
9 There has also been initiatives between RTOs to better
align
10 the timing between regional and interregional planning
11 processes and OMS supports these initiatives.

12 In conclusion, I want to thank FERC for allowing
13 me to participate once again in this Panel and for
providing
14 the regulatory perspective on interregional planning. The
15 impact on ratepayers of the cost of providing safe and
16 reliable service is important to regulators. The
17 cooperation between RTOs on interregional planning will
18 serve to minimize those costs when possible.

19 CHAIRMAN BAY: Well, thank you. This issue of
20 interregional transmission coordination is of particular
21 interest to Collette and I'd like Collette to begin the
22 questions for this Panel. Thank you.

23
Chairman.

COMMISSIONER HONORABLE: Thank you, Mr.

24 I've been a very good colleague to get to go twice in one
25 technical conference. This is positive encouragement for

for
comments
it
and

1 me, thank you Mr. Chairman. I want to thank each of you
2 more than your presence here today and your written
3 but for the work that you're doing. Clearly, this panel,
4 is a large one but the Commission has been very involved
5 hands on in shaping these to make sure that we have the
6 proper perspectives at the table and by your remarks you
7 clearly demonstrated really a mastery of the state of
8 what's happening or not happening with interregional
9 coordination and planning efforts.

10 While I will readily admit that it is early yet,
11 I heard some of you say that now is not the time for broad
12 and sweeping changes to our work. I hear glimpses and
13 actually a number of areas of symmetry or like-mindedness
14 with regard to some areas that I see as opportunities for
15 ways in which to improve this work. So I acknowledge, yes

-

16 - it's a bit early but if we see problems or a lack of
17 effort I think it still compels us to determine is there
18 something that we could aid in moving along interregional
19 coordination and work. I think your stories really speak
20 clearly for that.

you

21 Ms. Curran from MISO, in your written remarks
22 spoke of a few areas that you say as fundamental drivers

23 for interregional planning and I heard Carl mention a few
24 and I want to tee them up and hear from the other penal
25 members. Jennifer, you spoke about project need

1 coordination, seams coordination and cost assignment and
2 then Carl spoke of some areas that I thought you were, you
3 thought needed our collective attention, project
4 eligibility criteria, benefit quantification and cost
5 allocation criteria.

6 I want to ask you, why are these the drivers
that
7 are the most important because I think that and I admit
that
8 I come to this place from work as a state regulator and
9 being very focused as whether mentioned on seams issues
10 because of the opportunity to reduce congestion, eliminate
11 seems, all of these things which benefit, not only
consumers
12 and their pocketbooks but the ability to move power where
it
13 needs to go.

14 So I'm going to ask you two why are these the
key
15 drives and then I'd ask the other panelists to weigh in
with
16 any other thoughts that you may have.

17 MS. CURRAN: Thank you. So the drivers we
18 identified are less about the means or criteria by which we
19 planned but more of the drivers for the plan and the three
20 we identified, two of them we think are very valuable and
21 one we think is frankly a little less valuable. In the
less
22 valuable category we identified a driver called "cost

23 assignment" and that tends to be the outcome when we are
24 focused so closely on identifying a project, really any
25 project for interregional that we end up looking at
regional

1 projects that are already in place and trying to find a way
2 to better match cost and beneficiaries.

3 While we are of course supportive of continuing
4 to approve of matching cost and beneficiaries to the extent
5 possible, given the limited resource set that is probably
6 not the best use of our collective resources from a
7 transmission planning perspective. So we really identified
8 two other categories which really have one thing in common
9 and they are about how do we address the needs that aren't
10 being met today by interregional planning.

11 So lapsing into a little bit of MISO speak, we
12 tend to think of planning being top-down and bottom-up.
13 Top-down tends to be let's find a need and then find a
14 solution. We think there is a great deal more value to
15 happen particularly given the changing resource mix from
16 taking a look at those kinds of needs. That's why we think
17 that's the right place to focus.

18 MR. MONROE: Thank you very much. I wouldn't
19 disagree with Jennifer. As part of the interregional
20 planning we do need to enhance the way that we look at what
21 the interregional plan is for, looking for the needs and
not
22 just start with regional projects and seeing if we can find
23 a better project than that. The real issue that we had
with
24 SPP even within the region of trying to start from a

25 perspective is what's the future hold for us? And
actually,

1 what we found was even when we were going through the first
2 parts of that it wasn't as important as what the future
held
3 because the business-as-usual gave us real similar answers
4 to any future we would pick, but it was actually just
5 looking at the current needs and seeing if there were more
6 efficient ways to do that.

7 So I would continue to agree that that's one
area
8 that we could focus better on is in the regional planning
is
9 identification of the needs. The cost assignment or cost
10 allocation, the way we've looked at it within SPP is unless
11 you work that out, unless everybody knows who's going to
12 work for what and how that's going to be evaluated,
nobody's
13 willing to put forth a project.

14 So until you know who's going to pay for it most
15 people might want to know how it's going to be determined,
16 who is going to pay for it and that kind of leads us back
to
17 some of the other ones that we brought up is one is if you
18 only have a limited set of benefits then it could skew the
19 way the cost allocation where a party will not be willing
to
20 do that.

21 You know, we started with SPP with just
22 reliability needs. We had to meet the reliability needs
and

No. 23 if we could find a better project to meet reliability needs
24 then we would do that. That's kind of how some of Order
25 1000 interregional coordination efforts are now. You're

1 focused on just can I replace an existing regional project
2 with another one that's more cost-effective for the
3 reliability.

step

4 There's others that have stepped to the next
5 of benefit which is just production cost. So just the
6 production cost is probably one of the larger benefits that
7 you get out of looking at, you can call that an economic
8 benefit that you can get out of it but there's a whole host
9 of study that WIRES did with Bradle has outlined a whole
10 host of other types of benefits. It's harder to sometimes
11 quantify those. You have to go through that and quantify
12 them.

13 So if you know the benefits and you know -- it
14 will help you drive the cost allocation in a more
15 cost-effective way. The people will be more willing to buy
16 something if they can get a benefit out of it. I think
17 backing up to the criteria, why limit the criteria of what
18 you can find because we found within SPP that lower voltage
19 project, short projects give a whole lot of benefit so why
20 not look at those also?

that

I

21 COMMISSIONER HONORABLE: Thank you. I heard
22 or I read that from some of the written comments as well.
23 happened to be at SPP on the day that that record was

24 broken. It was an exciting day. Paul Susky gave me a
tour.

25 I'd been in the control room but not as a FERC regulator so

1 it brought a new realm of responsibility. Robert?

2 MR. MCKEE: Thank you. I just want to piggyback
3 off on something that Carl mentioned, particularly in terms
4 of benefits. As you guys sit up there and think about
5 "well, what is it we should focus on if we decide that
6 further investigation is needed or further evaluation is
7 needed." Benefits, from our perspective certainly is one.
8 The first question, okay why is it important? Because if
9 you don't look at the whole host of benefits or you look at
10 benefits in too truncated of a way, you run the risk of
11 leaving off what could potentially be the least cost, most
12 beneficial solution to customers.

13 We, I'm not going to read every specific type,
go
14 to WIRESGROUP.com and we have studies on this like for the
15 organization, but just to point out a couple areas of
16 benefits that potentially you could look into. The first
17 one is with economic benefits, particularly we pick one,
18 right. just production costs, net-low savings. There is a
19 whole host of economic benefits that could and should be
20 considered including losses, avoided cost and capacity.

21 Another area to look into is benefits that are
22 particularly specific to interregional facilities; like for
23 instance reserve sharing costs from one region to the
other.

24 Another area that we think should be drilled down into is

25 we've seen that regions have their own benefit matrix,

1 right, and having been a stakeholder in these processes for
2 a long time getting to that is tough, I get it. But what
3 happens is region A and region B get together and they say
4 "okay, let's drill down on the lowest common denominator"
5 and that means like a little sliver of the potential
6 benefits.

7 Then a 4th area that we would suggest looking
8 into is that in some cases we have different project types,
9 like a reliability project or an economic project or a
10 policy project and we have interregional reliability
11 projects and interregional economic projects but what if
12 region A has an economic benefit from a project and region
13 has a policy benefit from that project. We need to be able
14 to marry those up because at the end of the day that might
15 be the best solution, so thank you.

B

16 COMMISSIONER HONORABLE: Very good, thank you.
17 Dean Gaw.

18 MR. GAW: Hi Commissioner. First of all, let me
19 say this and you'll have this history probably better than
20 will, but thinking back over the last several years in the
21 SPP footprint about the importance of getting the dam
22 on getting needed projects built. You had to fix cost
23 allocation before that could occur.

I

broken

24 We saw that happen as SPP migrated and the

25 Commissioners were very involved in this, as you well know.

1 Every time we solved one of the cost allocation hurdles, we
2 saw transmission start getting built from the first
3 reliability fix all the way through to highway/byway.

Right

4 now we are missing that element in the interregional piece
5 in particular as it's tied to how benefits are counted and
6 how we deal with them. I think if you don't have some sort
7 of a set standard of we're going to count these kinds of
8 benefits, you get into very quickly a quagmire where either
9 one region or the other is going to count benefits that the
10 other one isn't going to count and if that ends up
impacting

11 the way you allocate cost or if it's ignored in the way you
12 allocate cost, you get an unjust result or you get no
result
13 at all which is generally what we're getting today.

14 So to me those two elements have to be dealt
with

15 and we need something stronger than what we have in the
16 toolbox right now. The other thing is, the current way
that

17 we're trying to accomplish what we're doing on looking at
18 the needs of the grid is just not broadly enough based. If
19 we don't have a way of aging interregional needs as opposed
20 to some sort of a better way of doing something that you
21 would do regionally, we're missing a whole gamut of what we
22 need to do to deliver more cost-effective power,
23 particularly when we have more and more resources come on

24 that are remote and that may very well be the best solution
25 for somebody in a different region.

a 1 But today, if all we're looking at is basically
2 regional solution that could be done better interregionally
3 and only between two regions we never get there. We never
4 see those bigger important projects that could be
5 interconnecting multiple regions, we don't see anything on
6 the DC side which tends to come out when you look at the
7 modeling that's done on the eastern interconnect for
8 instance. I think if we don't get to the point where we
can
9 do that, it's going to cost consumers more money and we
have
10 to start thinking about it in that term. We already have
11 the model because we have done it on the regional side.

12 We have made that progress there, we have seen
13 how that's resulted in transmission getting built but we've
14 got to use that information and that track history and
apply
15 it on a broader basis.

16 COMMISSIONER HONORABLE: Thank you. So I think
I
17 saw John's and then Dennis, Maury and then Jennifer. Then I
18 have one more question and then I'll yield.

19 MR. BUECHLER: Thank you, Commissioner. I'm
20 involved in all of the issues people have been talking
about
21 here for more years than maybe most around this table. I
22 have been with either New York ISO and myself in particular

23 have been active in seams which is a work I've grown to
24 hate. Resolution if you will for many, many years and
many,
25 many years before this Commission as well and cost

1 allocation I completely agree is always the bottom line in
2 terms of I think my entire career has always been cost
3 allocation in some sense or another, at the retail level or
4 the wholesale level.

5 I think that there are elements that Bob made
and
6 Steve in the Order No. 1000 current structure, which does
7 have this linkage between regional and interregional to
deal
8 with the example that Bob raised a minute ago which was
what
9 if one region has an economic need and the other region has
10 a public policy need or reliability which or whatever
11 combination that happens to be.

12 By having that linkage between the two processes
13 I would argue already allow you to address that because the
14 interregional project may certainly address different kinds
15 of needs in different regions so having the linkage with
the
16 regions having to accept the interregional project if you
17 will, they can accept it on whatever basis their regional
18 process may have already come to.

19 So the comment about how long it takes within
20 even regional processes to come to a final agreement on a
21 process on the benefits on the cost allocation, I
completely
22 agree. It takes a long time. It takes even longer on an
23 interregional basis. We've gone through that, all of us at

24 the table have gone through both of those in response to

25 Order No. 1000 more recently certainly and we've had to go

1 through the processes. The New York case and many of the
2 other ISOs, I'm not sure about all, the Commission has
3 accepted and approved the interregional cost allocation
4 basis on the voided-cost basis for the New York, PJM and
ISO
5 New England Regions solely because the regional processes
6 are looking at the other aspects and the other needs and
the
7 other benefits within their regions and those regions would
8 have to accept the project.

9 So with that type of cost allocation on an
10 interregional basis you would know first of all that there
11 are savings to each region, in some proportion or another
12 depending on what the mechanism has to be and those savings
13 go back to, well those costs lowered by the savings, go
back
14 to each region and the regions already have a regional cost
15 allocation process on how to deal with those. That kind of
16 linkage to me seems like it makes a lot of sense and let's
17 say it avoids, hopefully avoids going back to that entire
18 process at yet another level and trying to come to the same
19 agreement on the process, the benefits and the allocation.

20 COMMISSIONER HONORABLE: Thank you. We'll put a
21 pin in that point because you're getting ahead of my next
22 question about that.

23 MR. BUECHLER: I apologize.

24 COMMISSIONER HONORABLE: No, no. Thank you for

25 teeing it up. Dennis.

1 MR. KRAMER: Thank you, Commissioner. Just a
2 couple of observations. Benefits and cost allocation are
3 directly linked because stakeholders' customers have to
have
4 high, high assurance that the costs that are being
allocated
5 are roughly commensurate with the costs that are being
6 charged. That brings to the point that there are regional
7 differences between say SPP and MISO and PJM. Those deal
8 with the current and future generation mix.

9 For example, in MISO I'm sure you're hearing
that
10 there are numerous nuclear and also fossil power plants
that
11 are going to be shutting down that hadn't been envisioned.
12 I don't know how that's effecting SPP but you know, MISO
13 there is going to be an impact. Also, there's differences
14 in markets, the capacity of markets and things of that
15 nature so when the stakeholders are looking at the costs of
16 being asked to pay, they're going to ask also, what are the
17 benefits that are applied to me? They have to be convinced
18 that those benefits are something that they value and that
19 they receive benefit from. That's not to say there are not
20 traditional opportunities for improvement and explanations
21 and education but we have to be careful in one size fits
all
22 type of scenario.

23 Secondly, when we're talking about the benefits,

24 one of the things that was an interesting artifact of Order

25 No. 1000 was that it was requiring for interregional a

1 project to be identified in each of the regions. There
2 would then be a third project so to speak probably that
3 would solve both the problems. I think what I've heard
from
4 Carl and Several of the others is that maybe there is an
5 opportunity here in the future for something broader than
6 that.

7 The term that I use a "whole cloth project".
8 Something that is looking at and is not tied to
specifically
9 an existing identified regional problem but something that
10 is a broader base. I use this for an example, MISO and the
11 MVPs. The MVPs were recognition and acknowledgement that
12 there was broad and in that case, public policy need that
13 each of the individual states and our transmission owners
14 would be struggling to meet because we'd be solving
15 individual problems. As Jennifer alluded to, the bottom-up
16 process.

17 MISO looked at it and stakeholders came together
18 and said this needs to be looked at from top down. What
are
19 the larger projects that can not only address the public
20 policy need but address numerous economic issues as far as
21 efficiency and sweep in hundreds, literally hundreds and
22 hundreds of reliability projects that don't need to be
built
23 because the MVPs are going to solve them.

24 I think I've heard Steve say the same thing is
25 that maybe there's an opportunity to start looking at those

1 type of projects rather than being narrowly focused on just
2 replacing existing projects with something maybe a little
3 bit bigger. Thank you.

4 MR. GALBRAITH: So my thoughts go back to this
5 morning. I think I heard on the panel this morning that
one
6 of the biggest risks to competitive transmission
development
7 is getting regulatory approval in multiple states. I think
8 the comment was is that four states are harder than one. I
9 think that is certainly true and I think there's an
10 opportunity here for the interregional coordination
planning
11 process to help with that issue.

12 The way it could do that is through joint
13 interregional planning. So for example it's probably very
14 helpful to a PUC who is considering an application for a
15 certificate of public need and necessity to have two
16 planning regions come in and both say the project is
needed,
17 the project is beneficial. They're not going to be able to
18 take their word for it in all instances, right, so even
19 better than having two planning regions say it's needed
20 would be having a detailed and robust analysis of the need
21 and having it presented so that the Commissioner's can use
22 it in the record, in the proceeding.

23 So again, I think that one way to sort of
address

and 24 that risk and try and lessen that risk is through robust
25 comprehensive joint planning from the joint interregional

1 footprint perspective so that's one theme I want to come
2 back to.

3 COMMISSIONER HONORABLE: Commissioner Weber?

4 MS. WEBER: Thank you. A lot of what I was
going
5 to say has been echoed so I'll keep it really brief. It's
6 interesting to me how the state regulatory focus also
7 overlaps with what happens with the RTOs at the Federal
8 level. What I mean is a lot of times what we focus on is
9 whether or not the utilities have what they need to have to
10 provide safe and reliable service if they're identifying
11 needs, if they're spending their money wisely, if they're
12 not spending too much money and if ratepayers are
13 benefitting and I think that is what's happening here.

14 I agree with a lot of the members of the panel
15 that need to be addressed, these processes at the
16 interregional level should identify needs and those needs
17 should be met because ultimately ratepayers will pay, will
18 benefit from that. If needs aren't met I think ratepayers
19 pay as a result of congestion and other cost increase. In
20 Indiana I think we actually experienced a situation where
we
21 felt the need was not being met and we're hopeful that will
22 be met going forward.

23 Finally, I want to emphasize from an OMS
24 perspective that cost allocation is really important and

25 that's where the fight is at. Even at the State level,

1 that's where the fight is at, it's cost -- at the State
2 level it's cost causation, who's causing the costs and they
3 should pay for it and here it's going to be beneficiaries
4 who pay and I don't want that to get lost. That is where
5 our fight is at. I think you know that.

6 COMMISSIONER HONORABLE: Thank you for saying it
7 though for the record.

8 (Laughter)

9 Okay, Jennifer.

10

11 MS. CURRAN: Which is a great lead on maybe to
my
12 comment. So maybe to put a finer point on why, you know
the
13 MISO perspective is. Let's start with the need and the
14 project and not start with cost allocation as it has been
15 our experience that cost allocation is very divisive in
part
16 because it leads to a lot of what if kind of discussion so
17 maybe in a little bit of a contrarian view to some that
18 you've heard it's been my experience that starting with the
19 planning, this is what we did with the multi-value
projects.

20 You start with the planning and the broad
21 definition of the need and as the transmission shapes up it
22 becomes clearer where the benefit drivers are and where to
23 put cost allocation and how to land that at the end. It's

24 not an easy question but sometimes it's an easier question
25 when you have a little more definition around what is the

I
1 transmission you're talking about in front of you and so we
2 think there is some value to taking that approach although
3 would say it took five years to do the multi-value
projects.

4 I'm not suggesting it needs to take that long, but we do
5 encourage continued, you know we have stakeholders who are
6 committed to engaging in these ongoing discussions and I
7 think there's value to letting that continue to occur.

8 COMMISSIONER HONORABLE: The more organic
9 process, if you will. Okay, last but not least, Gary.

10 MR. DESHAZO: Thank you, Commissioner. So I'll
11 provide a bit of a perspective maybe from the West, sitting
12 next to my peers here who have very large regions compared
13 to the Western interconnection that has really four very
14 small regions. One of the things that I have been hearing
15 so far is this concept of you know, building these projects
16 and connecting these regions together, it sort of gives me
17 this, you know, I'm a transmission planner so whenever I
18 could build a project like that I'm going to you know, it's
19 sort of euphoric after eating a big chocolate bar or
20 something like that.

21 Well, the thing about that is I'm not sure
22 exactly what that means, at least certainly for us in the
23 West. If you look at what's happening certainly within
24 California and I think within a number of regions within
the

25 Western Interconnection, we're actually seeing our loads

1 decrease because of the behind the meter solar that's being
2 installed. We're finding ourselves in situations where
3 projects that we had originally approved through our
4 transmission planning process we're now cancelling them
5 because we no longer need them simply because the overall
6 load in terms of how their manifesting themselves within
the
7 state.

8 So clearly, you can understand that based up on
9 that then the concept of what kind of impact then does that
10 have on more of the interregional transmission that's in
11 play where you've been used to importing from other regions
12 and where you're finding your loads are now being more met
13 at the load center themselves so you're finding that the
14 need for imports may be somewhat impacted. So you know
when
15 you talk about it's a great thing to build interregional
16 projects, I'm not sure I exactly understand really how that
17 is going to work for us.

18 The other aspect is that the State of California
19 is very much involved in the California ISO's effort. They
20 provide us the load forecast, they provide us the
21 information relate to what kind of RPS scenarios that we
22 should be looking at and one of the things that I know that
23 you have seen over the last 3-4 years is that a large
24 interest in interregional transmission-type projects with a

25 desire to want to build California because that's where the

easy
1 money is. Okay, we have an organized market, it's very
2 for people to see and quantify benefits out of that market
3 and so the story is we have the resources, we can build a
4 500-mile or a thousand-mile transmission line to serve load
5 within your state at a lower price than what you could do
it
6 internally.

7 That may be true, but it isn't us that makes the
8 decision about how to do that that goes back to the states.
9 At least to the state of California and I think that's a
10 component that you can't ignore in terms of what we're
doing
11 when we're talking about overall interregional type of
12 stuff. We also talk about interregional planning and I
13 think I'm pretty clear about the order that you did not
14 require us to develop another process on top of the
15 processes that we have.

16 I keep hearing this concept of interregional
17 planning come back and I think we also need to be very
18 careful about that because I think you're really at the
19 ragged edge of now starting to talk about should we develop
20 an interregional planning process. Now, in terms of the
21 comments that I've seen from MISO and others I could see
22 where that would be possibly beneficial in terms of the
23 seams that they have because of the large regions that they

the 24 have. I'm not sure that that necessarily fits well into

25 Western Interconnection.

1 We've thrown all of our efforts into really,
2 fully defining our regional processes and trying to
continue
3 to work very closely to one another to make sure that we
are
4 exchanging information that we're talking to one another
all
5 the times so that we make sure that we're all using common
6 information. The concept being that if we're all common in
7 the basics then in terms of our regional plans and what we
8 come up in our regional plans it makes more sense when you
9 look at them together.

10 I certainly would acknowledge that we could do
11 better than where we are and we are doing better. Every
12 planning region is very much focused on trying to make this
13 work and for us to make this successful. So in time, I
14 think we will get there.

15 COMMISSIONER HONORABLE: Thank you. Perfect,
16 perfect segue to my last question. Mr. Chairman, I'm
17 delighted that that was such a robust analog. I didn't
18 intend for it to take so long.

19 (Laughter)

20 But my final question actually is one of great
21 concern for me because of comments I've heard from you
22 during my tenure here about the actual process and the
23 modeling and analysis that is taking place. As you're

24 considering interregional projects or the potential for
them

25 and since in Mr. Kramer's remarks you referenced in your

1 comments, your written comments, Dennis you referenced
2 eliminating duplicative or redundant tests and studies that
3 could provide efficiencies that would benefit all parties
in
4 a regional process.

5 I thank the WIRES report. Thank you for the
6 timely report and thank the Braddle group as well. It's
7 very illuminating that spoke to maybe some inefficiencies
in
8 the process. This is really one example where I think we
9 noticed something that's off-track, maybe we should see it
10 as an opportunity to improve it. Recognizing that the
11 regions are working differently and that one size doesn't
12 fit all. So I wanted to first ask Mr. Kramer and Mr. McKee
13 if you have any other thoughts to add on this point and
then
14 the other panelists and then I will stop talking. Thank
15 you.

16 MR. KARMER: Thank you, Commissioner. The
17 interregional processes are still in a state of development
18 even though we in some cases MISOs have JOAs with the
19 different adjacent regions for many years. We just
recently
20 filed the Order No. 1000 compliance filings, which actually
21 had significant contextual and factual changes in them so
we
22 still have some adjustments to make. The goal should be to
23 eliminate any redundant studies or tests because they take

24 time, they take energy, they take effort and they don't add
25 value.

1 The challenge becomes each of the RTOs, each of
2 the regions have their own unique attributes and their own
3 unique methodologies. The concern becomes I think one
4 individual maybe it was Bob McKee said was we don't want to
5 reach the least common denominator. So I think there is a
6 combination of education and information that can be
7 provided at the regional levels and at the interregional to
8 get this level of confidence and comfort with the analysis.
9 I do think it's going to take compromise. I do think that
10 is something that the interregional processes are run to
11 foster and I think Order No. 1000 will be a very integral
12 part of getting that process underway.

13 MR. MCKEE: Thank you. Alright and thanks for
14 that question. So the full warning, this is a little
weedy.

15

16 COMMISSIONER HONORABLE: I'm ready.

17 MR. MCKEE: So this is another potential barrier
18 we think if the Commission so chooses to explore a little
19 bit because I think it comes from how Order No. 1000 was
20 written so as was discussed already and again I welcome the
21 RTOs to correct me if I'm wrong, I'm sitting next to one
22 right here, that --

23 (Aside with other panel members)

24 So what occurs is that we conduct interregional
25 joint evaluation. We get together, we do come up with a

1 model, right, a single model. We come up with assumptions
2 per the cost allocation methodology. We come up with
3 criteria. Eligibility thresholds, all that jazz, right.
So
4 we have this interregional analysis. In that interregional
5 analysis we identify hey, maybe there's one or three
6 potential interregional projects that would address needs
in
7 the regions in a cost-efficient, effective manner.

8 So then we go to the regions and then within the
9 regions we have a separate model and we have a separate set
10 of criteria and a separate set of assumptions. It's within
11 that handoff if you will, and I'll just use this phrase to
12 describe it, the regions don't necessarily use the
13 interregional analysis. They rely on their own analysis to
14 determine whether or not that project should be included in
15 the interregional plan. So I think it's that sequencing of
16 things if you will. That's an area that we think could use
17 some looking into.

18 MR. MONROE: Thank you, just to give you a
little
19 historical basis of these talking about the interregional
20 part, we talked about 49.2 percent of the wind that could
21 not become accommodated without having a regional -- good
22 robust regional process that deals with a lot of the cost
23 allocation issues that have already been talked about on
24 the, and the benefits that would have to be calculated.

25 Just to give you a sense of that, we go through, we've just

1 gone through a study called the value of transmission at
2 that Brattle actually helped us with is to identify all the
3 benefits of a specific set of projects that were authorized
4 under the highway/byway and that's 3 to 1, 3.5 to 1
benefits
5 to cost ration.

6 Then also, we are also and this is one thing I
7 would say about one of the comments about you would have to
8 wait and do cost allocation after we get the projects
9 that itself. We tried that, we found that you focus only on
that
10 set of projects and that cost allocation. You don't get a
11 more broad sense of what cost allocation could have.
That's

12 why we went into the highway/byway and so but we did add in
13 on the back end of the highway/byway that regional cost
14 allocation review where we go back and say well, if we did
15 this and we did this highway/byway all of these projects
16 that we've authorized by highway/byway, what are the
17 benefits and is everybody getting benefits for the cost
they
18 are paying.

19 That shows a three to one and in fact we only
20 have one entity right now that got less than a 0.8 benefit
21 to cost ratio that we have to deal with mitigation of it.
22 But talking about the interregional, we agree that it makes
23 sense that if would agree with the parameters, the study

then 24 process and everything that goes into the interregional
25 we don't need the triple hurdle of going through

1 interregional and then through two regional process. If we
2 could agree to that

3 The issue that we get into there is that is our
4 stakeholders are looking for all the benefits but you have
5 one that's only looking for reliability replacement one,
6 then the cost allocation may be askew when it comes out of
7 that. So they may not be willing to consider it, just

based

8 on the cost allocation not based on whether the project
9 provides benefits to the interregional process too.

10 COMMISSIONER HONORABLE: So when it comes back
to

11 the regions, it's a review rather than an entirely new
12 analysis?

13 MR. MONROE: Correct and that's where in the

last

14 one we did with MISO, our review wasn't that much more to
15 take the models and just go through the review of it.

16 COMMISSIONER HONORABLE: I think that's a

glimmer

17 of light. Just alright, we'll go to John and then see.

18 MR. BUECHLER: I'll preface my comments by

saying

19 that in the regional analysis because our initial

20 coordination efforts did not identify potential

21 interregional needs that could be satisfied by an

22 interregional project. But we have thought about the

issues

23 that were brought up by Bob and discussed by Carl and that
24 is the desire to avoid duplicative types of analyses and to
25 try to deal with the fact that there are regional

1 differences and differences in methodologies and so forth.

2 So we do have, in our joint protocol at least, a
3 method for doing that. Now we've been coordinating the
4 modeling and the databases with our neighbors for many,

many

5 years so that we sort of have that in here. Now when you
6 get to the benefits that the different regions are looking
7 at and kind of how they're looking at them, it certainly
8 could be different. The protocol says we will endeavor,
9 "we" being the ISOs together in the stakeholder process,
10 will endeavor to resolve those differences at least for the
11 purpose of conducting the interregional analysis and if

that

12 is not possible then within the interregional joint

analysis

13 we will perform multiple scenario sensitivities, pick your
14 term for that.

15 All in an attempt to be able to provide the
16 information that each of the regions would be looking for
17 without having to literally duplicate that analysis. So we
18 hope that will work when we get to that point.

19 COMMISSIONER HONORABLE: Steve.

20 MR. GAW: Yes, thank you Commissioner. So first
21 of all I agree with what Robert was saying and I think Carl
22 basically said the same thing. After the fact regional
23 analysis is really getting to be a problem in regard to
24 trying to figure out. If you've agreed to what the terms

25 are on the interregional piece, the subsequent regional

1 analysis is only creating an additional bar and it has
2 proven to be a difficult bar to hurdle.

3 The other piece of this is on the front end. If
4 you have to come up with something to analyze that's
already
5 been through the regional process before it goes to the
6 interregional process, you've got a number of hurdles there
7 to have to clear including the fact that the timing may not
8 be very good, the data may be very hold depending upon how
9 when that analysis was done relative to when the
10 interregional analysis was done and there needs to be
11 better synchronization than we have today on the timing and
12 how that process was done.

13 I just want to hit one other quick point and
that
14 is when we're doing these, just in the experience that
we've
15 had in the SPP MISO so far, we've had one round modeling.
16 That was done just on a business as usual case. The
17 discussion is now, and I think it's positive that they're
18 talking about doing another round, but so far the
discussion
19 in the stakeholder groups have really centered around a
very
20 limited study not looking at any kind of low-carbon future,
21 not examining anything to do with the broader seams that we
22 have across the region and the needs that may be there.

23 If we don't, I think it's important to figure
out
24 if there's a way to ensure good planning practices, that
the
25 scopes that are adopted include something broader than just

but 1 "oh, what have we been doing for the last 10 or 20 years
2 anticipates and takes into account something that will give
3 us a more flexible outcome on the grid that is produced.
4 Thank you.

5 COMMISSIONER HONORABLE: Gary?

6 MR. DESHAZO: So Commission just very quickly, I
7 just, first of all I acknowledge that what these folks just
8 said is right. I think it's very important and sometimes
it 9 does not happen as it should if ever. For us, because of
10 these interregional transmission project proposals that we
11 have and because of California's interest in its
renewables, 12 we have for three of the regions, NTTG, WestConnect and the
13 ISO we recognized that it was important that we work
14 together to study these projects and so what we have
15 established, evaluation plans, the ISO will be providing
16 them the assumptions that we will use to study these
17 projects because it's really to source wind in either
18 Wyoming or Mexico and bring it into California.
19 California is going to provide the technical information
20 related to that. We already have all of our subject matter
21 experts that are working together so we will build common
22 cases. So here's a success, the problem is can we continue
23 that forward and that's where these folks are coming from
24 and I think I can certainly agree with that.

25

COMMISSIONER HONORABLE: Thank you all. Mr.

1 Chairman.

2 CHAIRMAN BAY: Thank you Collette. Tony?

3 COMMISSIONER CLARK: Thanks. Quick question for
4 Maury first because I was interested in your discussion
5 about Western issues and some of the challenges in
6 coordinating across the West. I'm curious, how much,
7 without getting yourself in too much trouble, how much do
8 some of those issues go away if you see a broader regional
9 market start to develop in the West?

10 MR. GALBRAITH: That's something we spend a lot
11 of time thinking about. I would say that as you're
probably
12 aware there's a huge governance debate going on in the West
13 and I would bet that any governance proposal that's able to
14 get the rest of the West on board and participate in
15 California is going to have provisions in there where the
16 states and I don't know if that's the PUCs or some other
17 office in the states, is able to continue to weigh in on
the
18 need for transmission and these issues so I think it's
going
19 to be baked into any governance proposal that ultimately
20 succeeds but you know that's just a guess and I could be
21 completely wrong.

22 COMMISSIONER CLARK: I've been giving him more
of
23 an opportunity to get in trouble with his state regulators.

24 I want to do the same for everyone else.

25 (Laughter)

1 I think one of the reasons the issue of
2 interregional planning captures people's attention or
3 imagination is because it seems to fill this gap of what we
4 all think about as these big lines that move power from
5 these resource rich parts of the country like the Great
6 Plains and moves then to the load centers across vast
swaths
7 of geography so it helps sort of picture this in our mind.
8 But let me ask a kind of provocative and maybe depressing
9 question which is are we setting ourselves up for failure
10 given all of the other obstacles that exist to developing
11 transmission and sitting transmission just given the
current
12 state of the law?

13 So for example, maybe FERC, I mean we fix
14 everything to everyone's satisfaction in regard to Order
No.
15 1000 interregional planning. We nail it, we get the
16 perfect process set up but the reality is you still have so
17 many challenges at the state and local level to try to get
18 through, even if you get through that process. I lived
19 through it in MISO and Jennifer you talked about the issues
20 you dealt with in MISO and having been through the upper
21 middle transmission development initiative and cost
22 allocation regional planning and MVPs, it's tough. That
was
23 within one relatively discreet region where everybody had a

24 skin in the game.

25 Are we setting ourselves up on some kind of,

point
1 where we're just destined to fail because at a certain
2 there's a township, a county, a state who just doesn't feel
3 like they sort of have a skin in the game and so they can
4 block a project. We're already seeing that in some of the
5 interregional projects by the way if I am to believe recent
6 headlines. Anyway, depressing question. I am curious as
to
7 your answers. Jennifer?

8 MS. CURRAN: Thank you, Commission. So I would
9 not say destined to fail, but at the same time I would say
10 we should temper our enthusiasm and expectations so as I
was
11 reflecting on some of the discussion in the earlier panel
12 and I think Steve mentioned some of the Eastern
13 Interconnection-wide study we've done and even before you
14 got to questions of things like transmission siting, we
got
15 to questions of those other benefits. Local economic
16 development, right?

17 We may put some lines on a page and say "look".
18 It's really the most efficient for customers if you have
all
19 the wind come from the Midwest and sink in the Northeast
but
20 that might not be what the Northeast wants. I think we've
21 heard that's not what the Northeast wants. I think we need
22 to add some realism to that, you know to the expectation

23 about -- it doesn't mean we shouldn't do the planning, we
24 should and we should reveal those questions but I agree
that
25 there's a lot of challenges in front of us, particularly as

1 you look at the multiregional because we do.

MISO,

2 We see those even within a single region of

3 you know, much less with our neighbors and beyond.

4 COMMISSIONER CLARK: John?

5 MR. BUECHLER: That was a good lead-in Jennifer.

of

6 Maybe I could give a little more perspective on two sides

7 your question, Commissioner. One is the broader

8 interregional types of analysis that you alluded to and the

9 other is the local interests and how they kind of link

10 together. I was in fact responsible for the coordination

11 committee of the IPC that ran the DOE Eastern

12 interconnection planning project from 2009 through the

13 middle of 2015 last year.

14 Steve alluded to that process as well and as did

from

15 Jennifer. There, the project was conducted, the charge

and

16 the DOE and in accordance with the DOE FOA was to design

17 issue and interconnection-wide planning process with

18 stakeholder advisory group in which the states played a

of

19 predominant role and notably cost allocation was not part

20 the scope, alright. So even given that, a cost allocation

21 was not part of the scope. The effort took roughly

22 3 years because it was two distinct different parts of

23 that study but the interregional planning effort which

24 involved the entire Eastern interconnection took about 3

25 years to develop and to go through a very extensive process

1 in which the EISPC was also formed, which is the Eastern
2 Connection States Planning Council and it did have a very
3 important role in the process and there were not always
4 agreements on either side there, much less with the rest of
5 the stakeholder committee. But enough agreement was reached
6 and we ran like 78 scenarios in phase I and narrowed them
7 down to three and did a lot more detailed analysis on that.

8 The point is I'm supporting comments that
9 Jennifer made earlier and others that that type of an
effort
10 requires a lot of time. I didn't deal with cost
11 allocations, just to say that once again, alright. So it
12 does require a lot of time. I guess what I'm getting to
is,
13 I hate to say take little steps, but I think that the
14 direction in Order No. 1000 as just about everybody here
15 has said, has definitely improved the process, there is
16 still more improvement that's needed within that process.

17 Within the developing and bringing up the
process
18 forward specifically to this panel, to the interregional
19 planning aspects. So I do agree with many comments here
20 that we should let that process, you should let that
process
21 go forward and continue monitoring it, so forth but not
22 interject major change this time. The other part of your
23 question about cost allocation on a local kind of level and

24 state level, well New York is only one state, right. We
25 don't have the challenges of MISO or PJM or SPP, but that

there
since
1 has not stopped regional differences within our region
2 has been, I've been in this industry in New York State
3 1968.

4 There is an upstate/downstate differential of
5 opinion on just about every issue and certainly related to
6 energy policy that has existed and it still exists and it
7 never will go away. Layer on top of that just the kind of
8 normal NIMBYism stuff which we're in the middle of right
now
9 as well with respect to Order No. 1000-related public
policy
10 initiatives that we are underway right now. I don't have
11 the answers to those questions. I know you raised it from
a
12 standpoint of jurisdiction or differences as well and I
13 don't have an answer to that. I've been around this for
all
14 my life.

15 COMMISSIONER CLARK: Gary?

16 MR. DESHAZO: Well I'm sitting here thinking
17 about all the beer that must have been consumed over all
18 those years wondering what FERC had in mind when they wrote
19 this order and because I don't think anybody really knows
20 and I don't think -- but that's okay. I've, you know if
you
21 talk to my peers in the Western Interconnection, they'll
22 tell you that I am a fan of Order No. 890 and I'm a fan of

23 Order No. 1000 and the reason that I am is because it is
24 trying to bring entities together to talk, to communicate.

25 If there is one thing that I remember about
Order

in
1 No. 1000, there's a paragraph or at least a few sentences
2 there that said that what you found from Order No. 890 was
3 that when regions come together and talk you have greater
4 probability of seeing a project occur. I particularly
think
5 that's somewhat profound because I believe it's true. What
6 I am seeing in the Western Interconnection is through Order
7 No. 1000 is forcing the planning regions to come to the
8 table, not that we didn't necessarily coordinate on things,
9 we've always done the coordination but what you have done
10 through the order has helped us focus on the things that we
11 need to be thinking about and the things that we need to be
12 focusing on.

13 What you may have had in mind, I worked for, my
14 first boss used to tell me "whatever project you think
15 you're going to build is not the one that gets built". And
16 so whatever you may have had in mind at the time you wrote
17 the order, that may not be where you end up but we are
going
18 to be better off in the end by the time we are done.

19 COMMISSIONER CLARK: As a native of the Nation's
20 #1 malt and barley producing state, thank you for your
21 contribution. Steve.

22 MR. GAW: Commissioner maybe I'm feeling a
little
23 more optimistic this morning because I was just in your

24 great state a couple of weeks ago as you were and

25 Commissioner Honorable and others and other years so I'm

1 still feeling the sense of optimism. I also rode in here,
2 flew in here this morning on an Honor Flight. I know you
3 all know what that is. Veterans from World War II and
4 Korea now are on the flight. They had 20 I believe
5 altogether.

6 I think about the fact that those people that
7 were on that flight accomplished something that a lot of
8 people could have said they couldn't do at one point in
9 history and if you think about the fact that there are a

lot

10 of soldiers on that flight that had specific duties, this is
11 your job, do it well and they did it with honor. If they'd
12 have sit back and worried about what the other soldier that
13 had a different job was going to do before they did it, I
14 don't know that we would have had the same result.

15 Today is the time. Yes there are obstacles and
16 they are significant. I completely agree. There are
17 sitting issues, there are different issues that we'll have
18 to debate but those obstacles are not reasons for us not to
19 do what is in the best interest of consumers in this

country

20 and I know that this Commission has the ability to do it

and

21 I know the people up here that are on this Commission are
22 very, very capable of making it happen so yes, I feel
23 optimistic. Thank you.

24 COMMISSIONER CLARK: Dennis. I'm not sure I'd

25 ever had to site a transmission line though.

1 (Laughter)

2 SPEAKER: But he built an awesome highway
system.

3 MALE SPEAKER: Probably had
4 something to do with an interstate highway.

5 MR. KRAMER: Thank you, Commissioner. Actually,
6 Order No. 1000 helped to facilitate to achieve the goals
you

7 described because it established the planning region
whereas

8 in the past we'd have to come together with individual
9 transmission owners and small organizations. It gives us a
10 focused area, an individual entity to talk to. So that's
11 one big advantage that we have.

12 It's a question of a business case. Just taking
13 it to the MBA style. We have to think across regions to
14 look for the broader benefits, we then have to boil those
15 down to the local stakeholders at the state level that the
16 state Commissions can then look at, agree with and accept
17 that are going to provide benefits to their constituents,
18 Your State Commissioner. Commission Honorable is a State
19 Commissioner. You know the hurdles that you need to put in
20 place for transmission projects to protect your
21 constituents.

22 So is it a challenge, yes. Is it something
23 that's instrumental? I don't think so. Many people
thought

24 that the MVPs would never occur. If you think back ten
25 years ago in 2005 when the Upper Midwest Transmission

1 Development Initiative, I'll stop using acronyms, was in
2 this vision, it just started. I'll challenge you, would
you
3 have thought in relatively 5 or 6 or 4 year timeframe that
4 we would have the MVPs approved, moving forward with
5 everything in place. That moved very quickly from where we
6 were, where we became in 2011. So I would say that it's a
7 challenge but I think it's a journey that we need to start
8 on. Thank you.

9 COMMISSIONER CLARK: Thank you.

10 MR. MCKEE: Alright. Well first of all, I think
11 it's a great question because at the end of the day,
12 regardless of what's in the regional plan, developers, TOs
13 will have to go before Commissioner Weber and her
colleagues
14 to get those approved, we need to address that.

15 So not only am I going to risk getting in
trouble
16 with my regulators, I'll also get in trouble with my
17 membership --

18 (Laughter)

19 Because I'm talking out of scripture. But I
will
20 say, I'm not going to temper my enthusiasm. I won't. as
21 Dennis pointed out with the, and you did too Commission
22 Clark with the UNTDI initiative, being from Wisconsin,
23 right. We're directly involved in that and we're directly

24 involved with the overall MVP portfolio. There were a
25 couple takeaways from that that I think though we have

1 regional differences and I think we should respect them, I
2 think there are some generalizable takeaways from that
3 experience.

4 The first one is, you've got to get states
5 involved in the process and they have to be involved in the
6 front end. We've found that if you partner with the
States,
7 the RTOs, the transmission owners, developers,
stakeholders;

8 you get everybody in the front end and you develop that
9 along the way, I think some of the issues you're alluding
to
10 will be tempered quite a bit because they'll already have
11 weighed in on that front end as you're developing those
12 projects.

13 I truly believe that that was one of the key
14 factors in the MVP portfolio coming about was a partnership
15 with the states and I think we could generalize that across
16 the country as well.

17 COMMISSIONER CLARK: Carl?

18 MR. MONROE: I don't want to repeat everything.
19 I think one of the core values is evolution, not revolution
20 so I think you're seeing some of the evolutionary
21 suggestions back to you about Order No. 1000 itself. I
22 don't think these are reshuffling the whole deck but we're
23 actually looking for improvements in the existing process.

24 One of the things that has helped us on a

25 regional basis because I look at your question as just
being

1 an extension of what we had to deal with on a regional
2 basis, is to have a regional state committee that had
3 authority over cost allocation itself particularly and
could
4 give us guidance on that and getting them involved it
really
5 forced us, us as an RTO, the stakeholders, the members and
6 the states to work together to come up with something and
we
7 went through an evolutionary process to do that through a
8 balanced portfolio that was similar to what the MVP is, all
9 the way to this highway/byway now that as I said is really
10 working out well to built transmission that accommodates a
11 lot of use of renewables within SPP and provides a lot of
12 benefits in that regard too.

13 So I'm optimistic too that it could be done
14 because we've seen the progress that we've made within SPP
15 on a multistate basis.

16 COMMISSIONER CLARK: Thanks. Robert, do you
have
17 one more thing.

18 MR. MCKEE: Yes, just one more quick parting
19 shot. I think the one other thing that I would add to my
20 comments is it's critical to show the states that need
21 justification. Dennis alluded to that right? You've got
to
22 show us the need case and that's developed in that planning

of 23 process and if they're part of it, if the states are part

24 that, they see that.

25 COMMISSIONER CLARK: Alright. Thanks. I'm in a

1 better mood now.

2 (Laughter)

3 I mean the cubs have lost like 6 of 8 so maybe I
4 was just kind of depressed walking in here but I feel
5 about this now.

better

6 CHAIRMAN BAY: Great, Tony. Thank you. Cheryl?

7 COMMISSIONER LEFLEUR: Thank you. I want to ask
8 a big picture question that I think plays off Tony's
9 comments. I will first start off with a comment that I'll
10 put out in the interest of time I will do it all at once.

A

11 comment that I'd like reaction to and then a big picture
12 question.

13 I had that backwards but, don't want to impair
14 anyone's beer consumption, but I was a quarter of the votes
15 for Order No. 1000 and at least, I can only speak for
16 myself. I mean, I can speak for others, but I won't.

17 (Laughter)

18 Let me put it that way because that's all inside
19 baseball. But the interregional coordination requirements
20 of Order No. 1000 were expressly soft. They were like the
21 process requirements for Order No. 890. That was an

analogy

22 made many times because that seemed like the best place to
23 start. We heard again and again and again, don't require

24 interconnection-wide planning. It won't work, it's a
bridge

25 too far, start far, start soft, start small, get this
going.

1

2 But there was a loose plan, at least in my mind
3 and I don't think in my mind alone, that just like with
4 Order No. 890. We started with coordination, then we came
5 along with Order No. 1000 and said okay, now we're going to
6 put some teeth and require planning and cost allocation

that

7 there might be a time with interregional where you start
8 with coordination, get the regions used to working together
9 and then come along and require more.

10

comment

So the question, and I'm going to give my

11 first is, is that time now, is that time coming? For those
12 of you many who've said go slow, it's too soon how will we
13 know when we're there is ever on that? My comment which
14 ties to this is there's been so many comments today on the
15 changing resource mix, it's mentioned in many people's
16 comments.

17

There have been any number of studies by the
18 National renewable energy labs and others that talk about
19 one of the best ways to transition to a cleaner future is
20 with a more robust transmission grade. That is almost
21 axiomatic. Nobody knows better than these four people how
22 hard it is to build fossil infrastructure so if that's the
23 whole plan, it's a hard one. We've had such success much

of

24 it before Order No. 1000 I might add within the regions,

25 with ERCOT building out the CRES and MISO in the MVPs and

1 SPP connecting West and East and KISO and all the lines for
2 renewables.

3 It's like we're trying to solve a big, I don't
4 know if it's algebra, linear algebra -- that was my worst
5 grade in college. A big problem where we have the good
6 locations for Central Station Renewables, the Population
7 Centers, the outlines of the RTOs and planning regions

which

8 let's face it -- they're irregular and anecdotal and not

how

9 you'd ever draw then, the state borders, and you're trying
10 to make this work but it can't be that the opportunities to
11 do what's going to get customers cleaner energy cheaper are
12 only in those weird borders.

13 I mean there must be at least some outside and

no

14 matter how hard it is, if there is something in our
15 jurisdiction, I'd at least like to know. So what can we do
16 and when will it be time for
17 Order-whatever-we-call-the-next-one, if you have a thought?
18 That's my only question.

19 (No response)

20 Steve. Not surprised you were the first one.

21 MR. GAW: I'm sorry. I apologize for that.

22 Everyone here knows me knows why -- say sorry for me. So

23 let me say this first, Commissioner. First, I very much

we 24 appreciate the question. Secondly, when we look at where
25 are today, the question on timing to me is really obvious.

1 We don't have more time.

2 I think that may have been for a lot of people a
3 different view when Order No. 1000 was in the crafting
stage

4 but a lot has happened and we're seeing it happen right in
5 front of our eyes. I mean out in the field and everywhere
6 else, we need an interregional planning mechanism that is
7 more than just what it is today. We have a canoe and we're
8 being asked to cross the ocean. We need a bigger boat and
9 right now we need to do this because we're in the ocean.
10 We're not still waiting to decide. So I think it's
11 really important for us to get to the point we know what we
12 need to do too. I mean it's not, you've already pointed
13 that out. We are in a position where we understand based
14 upon a number of studies that significant transmission
15 build-out is the most cost-effective result. Now where
16 those lines should be and all of that other thing, that's
17 something to be analyzed but we have to analyze it.

18 If you don't have the ability to look at lines
19 across multiple regions, and right now we don't. we're
20 doing this two reasons at a time. We have to see in all of
21 those maps that we've seen are multiple region maps. If we
22 are going to do the analysis we have to have more than we
23 have today and I don't think we can wait. I mean, I have
24 seen several press releases and press statements by
regional

25 transmission organizations about the clean power plan

it 1 analysis, all of which put laced inside of their comments
2 takes so many years to build transmission and how long can
3 we wait?

4 Well, if we're going to solve this
5 cost-effectively and we don't have the ability to at least
6 look at these bigger solutions as a part of the solution,
7 it's going to cost consumers money and we're not going to
do 8 it in the most cost-effective way.

9 COMMISSIONER LEFLEUR: Well, thank you for your
10 clear answer and your D-Day inspiration. Others? Harry --
11 Maury?

12 MR. GALBRAITH: So in some ways this question is
13 even more pointed than the question about the regional ISO.
14 There is tremendous frustration amongst public utility
15 Commissioners in the west about interconnection-wide
16 transmission planning. The reasons for that are sort of
17 multiple. I mean, the West had interregional
18 interconnection-wide transmission planning for the period
19 2009 through 2014.

20 The Western Electricity Coordinating Council was
21 working with the State Provincial Steering Committee. They
22 were taking study requests and they were planning
23 transmission interconnection-wide. The reasons for that
24 going away are multiple but one of them is FERC Order No.

25 1000 and the creation of the planning regions and them

1 taking on the role that they're taking on and WEC sort of
2 fading away and there's other reasons for that as well.

3 But there's tremendous frustration because it's
4 something the Commission had, they were accustomed to.

They

5 were engaged in that process and I think if you look at
6 their engagement in the various planning regions of the
7 West, I don't think you see a lot of engagement. It's an
8 important issue. I think the time, it's not now, it's

soon.

9 You can take incremental steps to get there and I think if
10 it persists for too much longer it's just going to continue
11 to fester and you're not going to make progress so thank
12 you for the question.

13 COMMISSIONER LEFLEUR: I don't know where to go
14 next. Gary? Thank you.

15 MR. DESHAZO: I don't envy the position that
16 you're in because of the varying positions that we all have
17 and somehow you've got to come up with something that is
18 going to fit and it seems more like a square peg in a round
19 hole I think in a lot of ways. I was very much involved in
20 developing Order No. 894, the ISO and our tariff in the

ISO.

21 Our read of Order No. 890 and I think that I would, I think
22 I'd appropriately say, I think we read Order No. 890 in the
23 temp that you had wanted us to read it.

24 If you go and look at our tariff, you will see

25 the requirements for the ISO to reach out to our neighbors

1 with the intent of coordinating information and
coordinating
2 data that I had in mind concepts of actually trying to do
3 sort of interregional type of analysis. Unfortunately, we
4 banged on the doors and nobody answered. So now comes
Order
5 No. 1000 and that sort of, now people are home and it's a
6 much better opportunity for us now, but I'm sort of
thinking
7 about one of your comments yesterday Commissioner Lefleur
8 where you were asking in terms of the order, you're reading
9 it for its legal requirement but you're also looking for
the
10 spirit.

11 I think that what I see in the West is that
we're
12 running into issues with the spirit of the order. When you
13 have situations where based upon our joint tariff, we have
14 an ITP an interregional transmission project that was
15 submitted to Northern Tier, WestConnect and the ISO but it
16 only electrically connects to Northern Tier and WestConnect
17 so they per our tariff are called "relevant planning
18 regions" that the ISO would be excluded from being involved
19 in conversations about that project, even though the intent
20 of the project submittal was to be a component of a path to
21 move Wyoming Wind to California but to exclude us from
22 participating in meetings because we were not a relevant
23 planning region.

24 I view that as that's purely a sort of a legal
25 consideration of what the tariff says and we're missing the

1 point on what the spirit of the order was intended to be.
2 In fact, that's just one example of those kinds of things
3 that we're facing. That said, we're at the table and we're
4 working through those. We're able to work with Northern
5 Tier and WestConnect to work out the issues related to that
6 because their concerns are they don't want to be perceived
7 as doing something that would be opposition of what their
8 tariff says.

9 So clearly we understand that, we get that part
10 but the ISO believes and I think really to a great extent
so
11 does WestConnect, there's flexibility in there that you can
12 play with as long as we're getting done what we want to get
13 done but not everyone feels that way. I think this is why
14 we're saying we just need some time to get used to one
15 another to continue to work with one another, continue to
16 develop our relationship, our coordination process and
17 guides and so on and so forth. I really believe that a lot
18 of these issues that we're currently seeing are more just
19 sort of hindrances more than anything else right now. I
20 think that over a period of time we will be able to work
21 through those.

22 So for us in the West it may be a small issue
23 compared to what my other colleagues are having to face but
24 nonetheless that's where we're at and we think that those
25 are things that we can work through.

1 COMMISSIONER LEFLEUR: Thank you. Jennifer?

2 MS. CURRAN: Thank you. So now it's my turn to
3 be the optimist. I spent a lot of time through the nature
4 of my job thinking about these planning and operating
issues
5 over the last few years and combining that and the
6 experience on multi-value projects and some of the things
7 that we've already hear about what needs to be in place to
8 move transmission forward, I'm optimistic that we're
already
9 making the turn.

10 I don't disagree with my colleagues, in fact
what
11 I am advocating is that we do spend more time and more of
12 our interregional focus looking at these broader-based
13 issues to really try to drive some of the, support some of
14 the changes we are seeing in the resource mix. The
reality,
15 right, in the MISO footprint is that we do not have a lot
of
16 load growth in most of the footprint. There are certainly
17 exceptions. So that traditional driver for transmission
18 really isn't there in the same way.

19 By the same token, if we look at gas price
20 differentials and the difference or lack of difference in
21 the portfolios between us and our neighbors, kind of this
22 reduction of congestion costs. The opportunity just isn't
23 as high as it used to be so a lot of it is going to come

24 down to how do we deal with integrating these new resources
25 reliably and efficiently. I have some optimism that we can

1 get there, that we're beginning to turn this ship.

2 When we talk about transmission planning in MISO
3 we talk a lot about the conditions precedent. The first
4 thing is having some sort of policy consensus which is
5 really having a shared viewpoint on what's the problem
6 you're trying to solve. The second thing which have been
7 mentioned a bunch of times if you've got to have a robust
8 business case for the plan so you have to not only have the
9 case but people have to agree with the case. That takes
10 time to bring people along and it takes their involvement
to
11 bring them along and then ultimately you have to have an
12 appropriate cost allocation that matches who benefits with
13 who pays appropriately over time.

14 So to the question of if the time isn't now,
15 which I am saying well it's not now, then when, you know I
16 think the milestones to look for are do we see the focus
17 moving to more of a focus on some of these broader issues.
18 Do we see the business case being developed and then if the
19 business case is out there, is cost allocation a barrier or
20 have we managed to solve that problem. I think there's
sign
21 posts.

22 Unfortunately it's not as easy as "is there a
23 project or not". I think that's an easy metric for a
24 dashboard. I think it's a little more "how is the process

25 going and are we beginning to see those changes.

1 COMMISSIONER LEFLEUR: Thank you. Dennis?

2 MR. KRAMER: Thank you Commissioner. I would
say

3 that the MISO TOs have had discussions about the scope of
4 Order No. 1000. I think one of the things that we think
5 improves the likelihood of being achievable for
6 interregional is to maintain the region to region focus as
7 opposed to cross country focus because I'm not pessimistic
8 but also I'm a realist. I would think that we could
9 convince the New York ISO and ISO New England that they
10 should pay for transmission to move power from North Dakota
11 in the near term at least probably is a stretch but maybe
12 there's opportunities for the adjacent regions like Carl
has
13 mentioned in SPP and things of that nature.

14 So we think that next that should be the focus
is
15 region to region. One of the things that we have alluded
to
16 and talked about is the changing generation mix and not
only
17 a MISO footprint but across the country. We wouldn't think
18 that there needs to be something prescriptive for that
19 because these are market forces that are driving these
20 changes. One of the things that we've been talking about
21 are new generation connecting. Well, guess what?
22 There's a lot of generation that's retiring, it's shutting
23 down. So that's one of the focuses of the regional. Maybe

24 that's something we can look at, as Jennifer mentioned from
25 a capacity standpoint where we don't build locally to

1 replace retirements. Maybe it's an import or something of
2 that nature. What is cheapest for the consumer? So
3 focusing on those broader aspects beyond the you know,
4 regional problem and interregional.

5 It just solves those two individual regional
6 issues, it's probably where we would recommend we focus on
7 and trying to go with a suddenly bigger picture, region to
8 region and get away from the individual problem/solution
9 concept. Thank you.

10 COMMISSIONER LEFLEUR: Thank you. Bob.

11 MR. MCKEE: Thank you. So Commissioner, if I
12 interpret your question correctly you're just simply asking
13 "Okay, what's the ask? What's our ask?" and so I would say
14 at this point take an incremental approach if my memory
15 serves me correctly, 890 took a while to develop, right?

We

16 had NOI, we had an OPR. It was years over development.

17 On this one I would say that we would ask to
18 evaluate the interregional coordination processes that you
19 have in place in Order No. 1000 in light of the issues that
20 are being raised in this docket, consider the need that's
21 out there at this point in time. I think that's, you know
22 we painted a pretty good picture in terms of the benefits

of

23 interregional transmission, the situation out there and

then

24 considered "Do you guys think additional guidance is

25 needed?" That's the approach we would suggest. Thanks.

1 COMMISSIONER LEFLEUR: Thank you. Carl?

2 MR. MONROE: Yes, quickly I will just reiterate
3 some of those but particularly that there are seams
projects
4 that will be beneficial because we had projects that can't
5 authorize ourselves because we don't have enough internal
6 benefits but there's enough benefits for the project that
we
7 know spill over to the seams so we know there's projects
8 there. In fact, we put out a slide that you can put all
the
9 projects that were developed in SPP, all the projects
10 developed in MISO and you see a demilitarized zone between
11 the two of them so we know that just by observation that
you
12 would expect something to be, something to be beneficial in
13 that area itself.

14 We've actually tried several things that we
15 believed that because we believe the Order No. 1000 process
16 and the Order No. 1000 has enforced enough of that, is by
17 doing things like, we actually have two -- a transmission
18 owner in SPP and a transmission owner in MISO that's
19 actually building a project together and sharing the cost
20 together because that was a seams project that was
21 identified that we couldn't get through the interregional
22 process.

23 We also know that there are other projects that

24 we'd like to be able to work on but we can't, it's not a

25 regional project on the other side, it's just or a specific

1 transmission owner. So we also filed a cost allocation for
2 non-Order No. 1000 projects itself and we haven't gotten
3 that so we'd like to be able to try things, the thousand
4 flowers blooming, that's one that didn't bloom for us.

5 (Laughter)

6 But we're going to keep trying because we
believe
7 that there are projects that are beneficial, projects that
8 we could share and would provide benefits to all regions.

9 COMMISSIONER LEFLEUR: Thank you. I love all
the
10 military, first we had General Eisenhower, now we have the
11 DMZ, someone is going to start humming "where have all the
12 flowers gone". Okay.

13 MS. WEBER: Thank you. I have to say directly I
14 think you're still in the coordination phase although I do
15 think the corner has been turned and I think it has been
16 turned because maybe some direction and some pushing from
17 FERC. Sort of to echo what Carl said, we have seen some
18 projects that are being built, but not as a result of the
19 interregional process because we can't get through it. So
I
20 think there is still some more work to be done with
21 coordinating between the RTOs and those processes.

22 The criteria for evaluating those projects in
23 order for us to sort of fully turning the corner or maybe
24 fulfilling what the intent was behind Order No. 1000. I

25 think that's important too when you're looking at the

1 changing resource mix and it seems that even with the Clean
2 Power Plan you're pushing the states and ultimately the
RTOs
3 to work together and coordinate. It's going to be
necessary
4 that they do coordinate.

5 I want to give a plug. I was talking to a Staff
6 member from Missouri and specifically talked about that,
the
7 concern that's seen between MISO and SPP and you have what
8 we've heard called the three hurdles. There is that issue
9 on that seam. You have these different criteria, the three
10 hurdles and so that I think in some states in OMS if I
11 remember it may be 8 or so. I think that that's the focus
12 of what maybe had happened with the PJM seam should be
13 turned to SPP so that coordination can be --

14 COMMISSIONER LEFLEUR: So do you think even if
we
15 don't go beyond RTO to RTO we should put on more guidance
16 about the tests and so forth?

17 MS. WEBER: I think so. Yes I do.

18 COMMISSIONER LEFLEUR: Thank you. Thank you all
19 very much.

20 CHAIRMAN BAY: Thank you Cheryl. This has also
21 been a very, very interesting panel and like every other
22 panel at this conference, the range of views really spans a
23 spectrum. For today's panel, for Panel 4 there have been

24 panelists who have argued essentially that we stay the
25 course with perhaps some fairly modest minor adjustments.

1 Certainly there have been people at the other end of the
2 spectrum who have been arguing that the time for further
3 Commission action is now and that the Commission really
4 should be more directive and provide much clearer guidance
5 to the different planning regions.

6 So I guess my question is this: Even for the
7 panelists who would want to give the process more time, who
8 are somewhat more in the state of course can't, are there
9 certain measures that you think that the Commission should
10 start thinking about and implement even now. Can the Panel
11 at least reach a consensus on some potential modification

or

12 tweaks to the interregional process on Order No. 1000?
13 Certainly there are panelists today who want the Commission
14 to push harder and farther but for those of you who are
15 counseling a more tempered approach, what do you think the
16 Commission should do if anything?

17 MR. BUECHLER: Mr. Chairman. Let's go back to a
18 little bit of history and go back further than I did
before.

19 When I was a managing director to form the New York ISO, I
20 was managing director for the New York Power Pool Utilities
21 and as you know that was a gentle nudge, maybe not so
gentle
22 from Order No. 88 that came to actually all of us within
the
23 Northeast region.

24 We, all at different timeframes, to propose
25 formation of an ISO. In that process and in our initial

1 tariff filings, there was a consensus of opinion that I did
2 not share amongst my other transmission owners and
utilities
3 in New York at the time, which was not to have any planning
4 process in the NISO tariff and we did not. I was not
within
5 that group. However, purred somewhat for Order No. 2000
6 even though the New York ISO later on did not choose to
7 request RTO status and then a planning process at least
that
8 was the initial Commission kind of nudge a little further
to
9 have a planning process in it.

10 If you're going to have an RTO and even though
we
11 did not collectively, we're a stakeholder so we decided not
12 to go to that level, what we did take-away from Order No.
13 1000 was that yeah, we thought it would be a good idea to
14 put a planning process together and we voluntarily worked
15 with the stakeholders for almost two years to file our
16 initial reliability only regional planning process which is
17 accepted by the Commission back in 2004.

18 You know the rest of the history and so the
19 Commission, we should know the time of year and planning
and
20 I have said I told you so to my other brethren that are
21 still working in the industry in New York and it doesn't
22 surprise me one bit. So I will say that I am definitely a

23 supporter of planning and more planning and of regional and
24 interregional planning.

25 Within the spectrum and timeline that we are

1 right now, orders No. 890 and Order No. 1000, and the fact
2 that the planning processes implementing Order No. 1000 are
3 still evolving and they're evolving at different speeds and
4 so forth and it's been talked about already. I'll go back
5 to I guess the comments I made before. I think that those
6 processes should be left to continue to evolve. Remember,
7 you have been, even with the "two region only" and with the
8 maybe less than ideal gerrymandering of some of the
9 regions, just with the two-region alone, looking at MISO,
10 SPP and PJM being neighbors that's huge. Looking at
11 maybe little New York and little ISO New England but next
12 and having an interregional planning process with PJM.
13 That's huge. So I think you have things to be proud of as
14 Commission that you really have driven that process and you
15 know enforced those additional requirements and it is
16 ahead as I think everybody said here. It is moving ahead
17 and it's moving ahead in different ways and different
18 regions as discussed. I think that is appropriate.

19 So what do I think that the Commission should be
20 doing at this point? I would say you should be monitoring
21 the processes that we have in the different regions as you
22 are doing here or starting to do here today and make that a
23 continuing effort. I'm not going to suggest a frequency

to

a

moving

but

24 I mean that would be the appropriate thing to do at this
25 time.

1 CHAIRMAN BAY: Angela.

2 MS. WEBER: Thank you, Chairman Bay. I kind of
3 do this funny dance when I'm a State Commissioner and Vice
4 President of OMS so I want to be respectful of other states
5 with an OMS. They would state that the processes that they
6 are not necessarily broken. Some would say something
hasn't
7 been built in all these years with a regional process so
8 there's a problem and others would say there's no problem,
9 continue to just let it play out and if that is not
evidence
10 enough.

11 So I want to be respectful to that position so I
12 want to say also Commissioner on the floor that some states
13 would say yes, put out some guidance and do more and some
14 would say there's no evidence that there's a problem right
15 now. So they would tell you to also monitor the process, I
16 think, so I just want to put that position out there.

17 CHAIRMAN BAY: Jennifer.

18 MS. CURRAN: So another vote for monitoring the
19 volunteer of you know, I think maybe some type of reporting
20 how things are going or I heard a suggestion of further
21 technical conferences but I think there is some value in
22 some continued discussion as this plays out.

23 The other action, maybe for clarity as I've
24 talked about no action needed. I do think about it in more

25 of the generic sense but I think the other place where

come
1 action could be taken is on the individual changes that
2 forward so in the MISO footprint we are not so much in the
3 position where we're letting the process play out and just
4 watching to see what happens. We're actively engaged, both
5 from a regional perspective and with our neighbors on
6 making sure we can make filings to address the low-hanging
7 fruit or introduce creative solutions like interregional
8 only projects to help us move forward.

9 I didn't want my notion of lack of broad action
10 to substitute for the fact that we do think changes will
11 continued to be needed and we will continue to continuing
to
12 work with our members to bring those to you.

13 CHAIRMAN BAY: Dennis?

14 MR. KRAMER: Thank you, Mr. Chair. One of the
15 things we do need to remember is that each of the seams is
a
16 slightly different stage so trying to implement a
17 one-size-fits-all as far as something prescriptive would be
18 problematic. However, on the stack of what's been said
19 there's a need we think for monitoring of progress and
20 monitoring of status where regions would give reports, say
21 for example on their interregional results. This would
give
22 an idea of what are the stumbling blocks or hurdles that
may
23 exist and what their impact are.

24 Also the concept which we talked about quite a
25 bit which is broadening the interregional concept beyond

1 just placing existing projects and looking at those broader
2 needs. So those are the suggestions, thank you.

3 CHAIRMAN BAY: Gary?

4 MR. DESHAZO: Mr. Chairman. In speaking in
5 context of the Western Connection I continue to feel that
6 we're working in the spirit of what I believe that the

order

7 is requiring us to do. We came up with the joint tariff
8 between the four of us. I can't name anyone within the

calf

9 ISO that ever believed that we were going to be able to do
10 that. We just did not believe that was going to be
11 possible but after digging into it and going through that
12 process and learning more about each other we did find
13 common ground. We built on that common ground and ended up
14 in a joint tariff that we currently have in place.

15 I think we're all, as planning regions, very
16 proud of what we've been able to accomplish. I think that
17 at least in essence for us at least, I guess in my opinion
18 what I would try to convey is that having accomplished that
19 is the Western Planning Region's way of saying that we are
20 committed to trying to make this work. I can understand
21 that they're wanting to be some little tweaks here and
22 there. I can't see a reason for doing something like that
23 at this point in time.

24 Certainly the monitoring, you know, quite
frankly

25 the fact that you're even asking this question should

1 probably scare the crap out of somebody.

2 (Laughter)

3 So maybe that's enough because they know that
4 you're watching and that's important that it be done that
5 way but for us in the Western Connection I think that we're
6 very committed to seeing this thing be successful and that
7 we will continue to work together and coordinate together.
8 I will say one last thing, please do not let the fact that
9 you don't see interregional transmission proposals come out
10 of the Eastern interconnection as a sign of failure because
11 that's far too simple an observation to reach that kind of
12 conclusion because there are too many other variables
13 involved.

14 There are state variables involved, there are
15 other issues that have to be taken into account that are
16 most likely more unique to the Western Interconnection
17 possible than to some of the other regions but I know that
18 there's this propensity to want to say "well, I haven't
19 anything happen." Well, we've only been at this for six
20 months and considering the amount of time it took us all to
21 put this together in the amount of staff and resources
22 committed to doing this, it's not really a very long period
23 of time.

seen

24 Certainly as I've said before, you know, we
25 should get through this cycle and see where we are at the

1 end of this cycle.

2 CHAIRMAN BAY: So I have one last question and I
3 appreciate the time of all the panelists. I know we're
4 going a little bit over right now. Staff here recently
5 issued a report with transmission metrics and it's a very
6 interesting report. One of the facts in the report is that
7 for the really big interregional transmission lines that
8 have been built in the U.S. over the past few years, they
9 were all merchant transmission projects and that's not
10 necessarily what criticism of the efforts of planning
11 regions under Order No. 1000, but you know, it's simply a
12 fact. That's how the big lines have been built over the
13 past few years.

14 So is there anything else, is there anything
more
15 that the Commission should be doing with respect to
merchant
16 transmission development that could help facilitate that
17 process because the big lines can either be built from
Order
18 No. 1000 or they can be built as a merchant project. So I
19 don't know if any of you have thoughts on that particular
20 question. Carl?

21 MR. MONROE: I tend to agree with you. They are
22 meeting a need that we haven't been able to identify in the
23 interregional process. to me the focus that Jennifer has
24 talked about and Steve has talked about looking at those

25 needs that go outside, we kind of have a good idea of how
to

1 meet the needs within our region but it's hard for us to
2 express those needs across the regional boundaries too. At
3 least these parties are finding places where that makes
4 sense, that they found the need to do that. So I would
5 tend to agree with you.

6 Until we can get the interregional process to
7 identify those needs and create these new projects as
8 Jennifer has talked about or Steve's talked about outside
of
9 that. You are probably going to see those merchants at
10 least do that.

11 CHAIRMAN BAY: Steve.

12 MR. GAW: First of all I would agree with what
13 Carl just said. If you're looking at the impediments, if
14 you think about emergent project that every single possible
15 hurdle is there for them, that could be and not having them
16 really integrated at all particularly in some of these
17 projects into the current planning process creates an
18 additional problem with them when they go to get signing
19 authority. We've seen that in the past. If there were
20 some mechanism where they were included in that process it
21 might be of assistance in helping to facilitate first of
all
22 assessing the value of those projects and also getting some
23 sort of an approval, that then gives them something to say
24 that there's a public interest value that's been met.

25

So I think that would be helpful. Again, you

1 have to get outside of this lock we're in right now of
2 saying where it has to be something coming up through the
3 regional process because these bigger projects like this
are
4 something, they're really meeting an interregional need and
5 there may not be something on a regional basis that's
6 comparative to it. Until we get beyond that I think we're
7 really not addressing some of those -- and those are just a
8 part of it.

9 Now just one more piece I would encourage you
all
10 to at least think about in regard to the soft positions
that
11 are here about whether to move forward. Actually, starting
12 some sort of a technical conference docket that would allow
13 more input into this arena so we could get more of this
14 information into you and have folks recognize that this is
15 not just an afterthought. Thank you.

16 CHAIRMAN BAY: Thank you for that comment Steve
17 and just a reminder that we are taking comments after the
18 technical conference and I think we also have indicated
that
19 this could be the first of a series of tech conferences.
20 John?

21 MR. BUECHLER: Yes, Mr. Chairman. I would say
22 that with regard to merchant projects, you're doing it
23 already. We haven't had a lot of discussion in these
couple

24 of days about the other major function of all the ISOs and
25 RTOs that are sitting here today which is to run
competitive

is
1 wholesale markets. Merchant transmission, I would argue,
2 a result of those competitive markets and just the last
previous
3 point is getting back to the risk discussion of the
4 panel this morning and the concern about cost to consumers.
5 We, our planning process in New York is driven
6 by, first and foremost we find needs and we solicit
7 solutions including market-based solutions and they have an
8 explicit preference in our tariff before you get to a
and
9 regulated solution. So I think you are doing it already
10 market-based solutions if you want to use that word are a
11 good thing in cost to the consumer and where the risks are.

12 CHAIRMAN BAY: Well, thank you John. I want to
13 thank all the panelists for your very, very thoughtful and
14 informative comments this afternoon. We will take a break
15 now and resume with our last panel at 2:50 p.m.

16 Break at 2:34 p.m.

17 CHAIRMAN BAY: Alright. Welcome back everybody.
18 Now we have our last panel of the conference, our 5th
Annual
19 Regional Transmission Planning and Other Transmission
20 Development Issues and we will start with Michael from
21 National Grid.

22 MR. CLAVIQU: In my comments I'd like to pick up
23 on some of the themes that we were discussed in earlier

24 panels particularly around the differences between the

25 sponsorship model and the competition model. Transmission

1 projects tend to last many years and they get to evolve so
2 it's very often a project will be fundamentally different
by
3 the time you finish the design and the evolution of the
4 project what was conceived and therefore when you choose
the
5 competition does have a some quite fundamental effects.

6 We strongly believe that the sponsorship model
7 has a scope for bigger customer savings, we see much more
8 innovation in terms of designs and people coming up with
9 concepts which maybe would not have been conceived if any
10 party, however good that party is, is identifying the best
11 ideas. So there's lots of potential benefits in the
12 sponsorship model but cost containment measures and
13 inevitably going to be much more complicated to apply at
14 that point because the scope isn't pinned down. There's a
15 lot of uncertainly about permitting, siting issues, etc.

16 You can't just reapply something that might
apply
17 in a process where the scope is fixed and apply the same
18 concepts, say cost caps in a simple way, in a project
19 sponsorship. My other comment is to say we would support
20 transmission competition where it makes sense for
customers,
21 we have to recognize there is an overhead in a competitive
22 process, both in terms of the costs or the bidding
23 preparation cost and the timescale and therefore we should

24 focus competition on where it makes sense, the bigger

25 projects, the projects where lots of innovation confuses

1 benefits to customers. Thank you.

2 MR. GULLEY: Good afternoon, my name is Don
3 Gulley. I am President and CEO of Southern Power
4 Cooperative. We're a generation and transmission
5 cooperative that serves rural Southern Illinois and we

serve

6 some of the poorest areas in the state as well as
7 nationally. Many of our members that are on the end of the
8 lines are the ones that are bearing the costs and are
9 currently living well below the poverty level.

10 We are vitally interested in transmission cost
11 development. In fact, over the last three years we have
12 seen our regional development costs go up over 380 percent
13 in the last three years and according to MISO and looking

at

14 the build-out of MVP projects, we expect those to double
15 again before we get to 20/20. Many elements have been
16 discussed today and yesterday around cost, cost containment
17 but at the end of the day what it comes down to for us is
18 what is the rate? What is the customer, the consumer
19 ultimately going to pay?

20 We really have two asks and they're very simple.
21 Number one: Transparency. We're interested in having a
22 more transparent environment. To better understand the
23 models, to better understand the benefits and the costs

that

24 are going into those models so that we can communicate and

is 25 be able to tell our board and our members back home, this

1 what we're getting for the dollars that you're spending.

2 Number two: Whatever process that comes out of
3 this. What we'd like to see is that we're able to evaluate
4 the actual results. Go back and look at the projects,

learn

5 from the past. Find out what we're doing well. Repeat

6 those, if there's things that we're not doing well, stop

it.

7 I appreciate your time and particularly your attention and

8 recognition that it's ultimately the consumers at the end

of

9 the line that's going to win or lose in this process.

Thank

10 you.

11 MR. HERLING: Good afternoon. My name is Steve
12 Herling. I'm with PJM. I'll speak to some of the numbers
13 that are I the materials we submitted. We've run a number
14 of windows on our Order No. 1000 process. In each of our
15 windows we publish a significant volume of work identifying
16 a lot of issues that need to be resolved so each window is
17 not related to one project.

18 We have, in fact approved a hundred different
19 projects through those windows. Ninety-five of them

roughly

20 ended up being upgrades to existing infrastructure and was
21 served back to the transmission owner of that

22 infrastructure. Of those ninety-five, some of those

clearly

23 benefited from having had a window and examined a number of
24 alternative solutions but more of them probably did not.
25 Most of them, it was probably fairly obvious and after we

1 did the analysis our conclusion was that we were going to
2 upgrade a piece of infrastructure and give it back to the
3 transmission owner.

4 We've had a lot of argument about the Greenfield
5 projects and about some of the upgrades. Bottom line is a
6 lot of people have talked about transparency and obviously
7 we've learned from all of our experience that we need to do
8 a lot to improve the transparency of our process at the
9 front end, doing analysis at the back end when we award the
10 projects, but the bottom line is we have got to narrow the
11 focus. We have made one filing and we will likely be
12 a couple more to narrow the focus of our proposal windows
13 that we can really look at the projects in depth so that
14 most of the benefit can be derived.

making

so

15 The bottom line and the most important thing for
16 us. We're not afraid of having an argument about which is
17 the best solution but we cannot let that argument delay
18 projects to the point where we're not solving reliability
19 problems in a timely fashion. Market efficiency problems
20 they are delayed cost customers money but reliability
21 problems leave risk on the table for customers and that's
22 unacceptable.

if

23 MR. HOLTZ: Chairman, Commissioners. Thank you

24 for inviting me. I appreciate the opportunity to present
on
25 this Panel. My name is Matt Holtz. I'm managing director
of

1 transmission at Northern Indiana Public Service Company,
2 also known as NIPSCO. NIPSCO is a member of MISO, a
3 transitional member of MISO so I'll focus my comments on
4 the MISO process.

5 Since 2008 through 2015, MISO Board of Directors
6 approved around 18 billion dollars' worth of transmission
7 projects through an attempt at process, 62 percent of those
8 upgrades were baseline reliability projects, 29 percent
were
9 multi-value projects, 8 percent were generational
10 connection projects and half a percent or 87.5 million
11 dollars were market efficiency projects so and the market
12 efficiency project numbers, not for a lack of need over the
13 same time period, MISO experienced year over year rising
14 consistent with congestion in light of falling natural gas
15 prices with a peak of 14 dollars per million BTU down to 2
16 dollars per million BTU with a total real-time congestion
17 summed up over that period of 6 billion dollars.

18 I've summarized that in a graph on page 6 of my
19 prepared comments to give you a visual of what that means.
20 Obviously our focus is on the opportunity within the MISO
21 process with a market efficiency projects there is a need
22 there but the process hasn't cleared that logjam yet of
23 needed projects to deliver lowest cost energy to end-use
24 customer.

25 What's the wire market efficiency projects

1 important? They are meant to bridge the gap between market
2 operations and the long-term planning. In the planning
3 world, that is after the generator has interconnected
4 through the generational connection process, through
5 operations, to the Baseline Reliability Project, where
6 that's a backstop to fix just some problems where it

becomes

7 chronic rather than, to Steve's point, an economic issue.

I

8 know that it impacts customers, it impacts producers.

9 Omar is on the Panel and he's been part of other
10 proceedings including NISPCO and EL1388 so if he could
11 expand on some of the impacts to producers who've not taken
12 advantage of bridging that gap. The issue doesn't stop

with

13 the regional process. It spills over in to the
14 interregional process. MISO and PJM just recently filed a
15 noncompliance filing an EL-1388 to use the two regional
16 processes and to substitute for an interregional process.

17 What's that mean? They take a separate ERTAP
18 process with some models and criteria and separate NPEP
19 process with some models and criteria and somehow they'll
20 meet up and develop an interregional project. We ask that
21 the Commission reject the approach and really go back to

the

22 approach defined within the order of EL-1388 of using a,
23 when you're reading the order in the whole, using a joint

24 model study jointly, using the benefit metrics from the

25 original process was on that joint model. Then figure out

1 the cost allocations between the RTOs and perform the
2 interregional analysis that way.

3 NIPSCO plans to file inside the docket with that
4 approach to expound on it, on really what does that mean
and
5 the impacts to the customer and the impacts to the regional
6 process but in conclusion really refining the market
7 efficiency process offers the greatest opportunity within
8 MISO but also in the interregional space to free up the
9 logjam of projects that are going to ensure lower cost
10 energy is delivered to customers and we can accomplish that
11 through a refined process focused on models that capture
12 system benefits, actual system results with included future
13 needs and proper metrics to really capture the system
14 benefits and then optimize over the region and
15 interregional. I look forward to your questions. Thank
16 you.

17 MS. HUNT: I'm Heather Hunt with the New England
18 States Committee on Electricity or NESCO which is New
19 England's Regional State Committee. Thank you for
including
20 us here today. I admire your stamina so I'm going to be
21 exceptionally brief with the issue that we wanted to raise
22 for your consideration going forward and that is with the
23 exception of the last panel, much of the conversation over
24 the last few days has been about the appropriate allocation

25 of risk between ratepayers and shareholders. So there is

1 discussion of the processes and the mechanics and the
2 decision making associated with that.

for

3 The question that New England wanted to raise
4 thought going forward to benefit from the experience in the
5 other regions is whether and how we might be able to
6 allocate some of that risk by and between shareholders
7 differently on a going forward basis in the circumstances
8 where they may be no competitive process for transmission
9 needed for reliability. That is the case in New England
10 today due to a variety of factors, one of which is the
11 three-year exemption for projects needed within three years
12 and the study process associated with that.

13 For clarity, the New England States are not
14 interested in competitive solicitations for the sake of
15 them. They cost both the RTO and developers money and to
16 the extent that it doesn't make sense to proceed under a
17 competitive framework, might there be some way to try to
18 deliver to consumers the benefit of the allocation of risk
19 on a going forward basis. Thanks.

to

20 MR. LUCAS: Good afternoon and thank you for the
21 opportunity to present here today on behalf of the
22 Southeastern Regional Transmission Planning Group or
23 otherwise known as SERTP. The SERTP Sponsors are pleased
24 inform the Commission that our implementation of Order No.

25 1000 is going quite well. There has been little, if any

1 controversy with respect to the projects that the sponsors
2 have selected to be included in the regional transmission
3 plans.

4
longstanding

 The sponsors attribute that to their
5 tradition of utilizing a bottom-up approach to transmission
6 planning whereby the native load and network customers and
7 other firm customers under the tariff, they inform the
8 transmission planner of their decisions in the future as
9 well as their load forecast and other input parameters.

The

10 transmission planners then use that to develop the most
11 efficient and cost-effective transmission plan that serves
12 the needs of all those customers on a firm, physical basis.

13 We would leave the Commission with two thoughts
14 here today about adjustments needed to Order No. 1000.
15 Number one, the regional and interregional processes are
16 still very young in how they are developing. With respect
17 to the regional most regions have only completed a single
18 cycle and most of the interregional is in the stages
19 middle and final implementation. As such, we just don't
20 feel there's enough information in the way of lessons
21 learned, trends, what's been working well, what needs to be
22 adjusted to inform the Commission enough that you would
23 to change the core principles of Order No. 1000. That's
our

between

need

our

24 first thing.

25 The second thing would be, and I know this is
not

1 going to be a popular message in the room, the first three
2 panels all dealt with issues surrounding cost containment,
3 cost recovery and how those play with incentives. We would
4 note for the Commission those are attributed to voluntarily
5 adopted processes in those regions that were not required
in
6 Order No. 1000 and for the most part the Commission clearly
7 said in Order No. 1000 it would not address those items.

8 Therefore if the Commission feels the need to
9 make adjustments in those regions, we would just ask that
10 you direct those changes to the regions where those
11 voluntary processes had been adopted. Thank you very much.
12 I look forward to your questions.

13 MR. MARTINO: Good afternoon. My name is Omar
14 Martino and I'm the Director of Transmission Strategy
within
15 the Evaluation Transactions Group at EDF Renewable Energy.
16 Before I read my prepared comments I want to thank the
17 Commission for inviting me here to speak today and my
18 comments are primarily coming from an independent power
19 producer view for regional and interregional issues.

20 Some RTOs and transmission owners have argued it
21 is too soon to assess the effectiveness of Order No. 1000
22 for regional and interregional effectiveness. We disagree.
23 There is a need to fundamentally change and enhance how
24 transmission is planned and utilized in this nation. RTOs

25 are holding on too many historical ways of doing things
that

1 are inhibiting cost-effective, efficient and maximum use of
2 the grid. Commission directives are needed to require RTO
3 to expand the transmission planning concept in their
4 tariffs.

5 I will discuss key several areas where regional
6 transmission needs need to change. First, real
transmission
7 planning should annually identify persistent binding
8 transmission constraints. Right now, no assessment on
9 congestion occurring in real time is regularly undertaken
by
10 the RTOs. Congestion is extremely costly and unnecessary
to
11 ratepayers and generation owners. RTOs should be required
12 to remand their tariff to include a congestion management
13 protocol that number one, lists triggers for congestion
14 identification and two annually assesses whether an
15 economic upgrade is more cost-effective than persistent
16 congestion.

17 One of the measures that can be used to
18 identification of congestion triggers can be the use of
19 excess market-to-market payments of both 5 million dollars
20 for example or price differential between regions and
21 trading costs in the order of 3-4 megawatts per hour or
22 procurement of generation of about 200 hours annually.
23 Lower voltage facilities should be included in congestion
24 and economic transmission of the analysis. We are

25 experiencing high level of congestion and curtailment on

1 lower voltages. Yet, the RTOs do not review congestion or
2 consider economic upgrade at lower voltages.

imbed

3 Third, regional transmission model needs to

for

4 resource interconnection service rates and preserve them

5 customers that pay for the NRIS notable upgrades. RTO are

6 not doing this. Order No. 888 requires the transmission

7 provider to preserve network integration transmission

8 service and firm point-to-point service rights, especially

9 where the transmission customer found network upgrades.

10 RTOs capture this in regional transmission planning so they

11 reach transmission capacity to serve these paying
customers.

12 However, there's no compatible treatment for NRIS for the

13 interconnection customer.

14 Fourth, regional transmission planning should

15 realize great modernization and optimization tools such as

16 dynamic line ratings and measurement units to manage

PMUs

17 congestion in the short term. Both the use of VLRs and

projects

18 can lead to revisit how a skid is operated for wind

19 and how wind projects are dispatched in general.

20 Fifth, a standard 3 or 5 percent distribution

is

21 factor should be used. The facts or distribution factors

22 a measure of the impact on transmission element from a

23 proposed generation project. RTOs are not employed lower
24 enough defects. These allow new generation to connect
25 without properly shoring up the grid.

1 Lastly, the regional transmission and generation
2 interconnection process should be united, not separate and
3 distinct. The current construct causes transmission to lag
4 behind generation needs. This causes the generation to
fund
5 upgrades where surge in transmission is not timely
6 considered. The transmission planning process essentially
7 in our view only accommodates deliverability for
8 load-serving needs. There's no forethought for
transmission
9 to accommodate regional generation need. Thank you again
10 for inviting me here to speak. These are very important
11 matters to us and I look forward to the questions at the
12 end.

13 MR. SUSKIE: Good afternoon Chairman and
14 Commissioners. My name is Paul Suskie. I'm an executive
15 Vice President and General Counsel for Southwest Power Pool
16 and we appreciate the opportunity to be here. In
17 preparation for this technical conference, SPP identified
18 four issues that we thought were important. Number one,
the
19 need for improvement in regional issues that your last
topic
20 panel covered. Number two, the need for multi-region
21 planning. Number three, whether or not there should be
22 minimum threshold requirement for competitive transmission
23 solicitation requirements, and number four, the

24 establishment by the Commission of Order No. 1000

25 implementation metrics to measure its success. Because Mr.

1 Monroe talked about one and two I'll concentrate on three
2 and four.

3 As Chairman Bay witnessed in August, SPP
4 completed its first competitive solicitation process. in
5 its order, FERC called for more efficient and cost-
effective
6 solutions. However, in our experience in that first
7 competitive prose that we have it does raise the question
of
8 whether the cost of administering these processes of
9 competition can be outweighed by the benefits.

10 So in our first process that we went through it
11 was open competition between qualified entities, eleven
12 entities submitted proposals. Only one was selected. The
13 winning bidder or proposer had an 8.3 million dollar
14 proposal. SPP spent five hundred thousand dollars or a
half
15 a million dollars studying it. through a survey of some
but
16 not all of the eleven bidders, they ranged between three
17 hundred and four hundred thousand dollars per proposal that
18 they submitted. So that calculates out to between four and
19 five million dollars were spent for a project of 8.3
20 million dollars.

21 So we're not saying it should be done but we've
22 raised the question, is there a minimum threshold that it
23 should be? The cost of administering that both for the

24 competitors as well as SPP was about between 46 percent and
25 59 percent of the cost of the project so all those costs

1 aren't born by ratepayers. Some are by the competitive
2 companies but it does raise the question of should there be
3 a minimum standard set.

4 With that, we would suggest that Order No. 1000
5 requires any regional funding that the project could be
6 competitive in nature. We would recommend that the
7 Commission consider a couple other additions to that. One,
8 put a minimum threshold on the fiscal characteristics of
the
9 proposed projects, for the length of the project, for the
10 size of the transmission development and or the cost of the
11 actual upgrades so these are some ways you can maybe think
12 through a minimum de minimus threshold of when you should
be
13 competitive.

14 Last issue I'll raise up is metrics, is for this
15 Commission and its Staff to develop how to measure the
16 success of Order No. 1000. Similar to what Chairman Bay
had
17 mentioned earlier about the metrics for transmission
18 development. Every region is different and maybe these
19 metrics should be different but there should be a way that
20 we can hopefully measure the success of Order No. 1000 and
21 whether it's working as intended. I look forward to your
22 questions. Thank you.

23 CHAIRMAN BAY: Thank you, Paul. Cheryl would
you

24 like to begin the questioning?

25 COMMISSIONER LEFLEUR: Well, I actually asked to

1 go first for this panel and now I'm wondering why with such
2 a diversity of statements to challenge me.

3 (Laughter)

4 No, but I know why because this was the Panel to
5 which more general issues about how Order No. 1000 is
going,
6 was relegated and with a great group of experts to talk
7 about it and thinking back to my opening statement I said
8 I'm trying to think, its seems like a week ago but I think
9 it was just yesterday afternoon,

10 (Laughter)

11 Trying to think generally about what value Order
12 No. 1000 is adding. My first question is a little bit
13 provocative. I will put it to you fortunate people who are
14 sitting here but I would welcome comments from anyone who
is
15 going to be commenting in the docket because it's something
16 I've been thinking a lot about. It relates a little bit to
17 although coming at it from a different angle, to the issue
a
18 lot of you brought up of what goes to the competitive
19 process and what doesn't go through the competitive
20 process.

21 At the time when Order No. 1000 was voted out,
we
22 made the decision, it's really two things together. One is
23 the planning and cost allocation which we talked about a

- 24 little bit in the last panel, adding more teeth to order
- 25 890, really requiring binding cost allocation regional

1 planning in RTO or non-RTO regions and so forth.

2 The second component was the introduction of
3 competition into transmission and the elimination of the
4 right of first refusal from incumbents in certain
5 circumstances with certain exceptions. Now looking five
6 years later, I guess the question I have is what impact has
7 the turmoil and transitions of eliminating the role FERC
8 and the introduction of competition, the threat of
9 competition had on the planning process if any.

10 For the first year I was at the Commission I
11 heard from many, many incumbent transmission owners almost
12 all of whom thought we should not eliminate the right of
13 first refusal and suggested any number or parade of
14 horrors that would happen if we did to transition
15 planning, including one person who actually said to be "you
16 will be killing regional transmission development because
17 transmission owners will no longer build the big things.
18 They will build what you allow them to build and not bid
19 out."

what

20 We've had now a number of proposals to limit
21 goes through competition, perhaps extremely valid but also
22 informed by the wishes of the people in the regions as well
23 as I've observed in other than the two regions that have
24 done a lot of the windows as I talked to people they're
25 saying "we've done a lot of our big work already, really

of 1 right now it's more of the little projects we need. More
2 our money is going into the smaller reliability things.
3 That's what we really need in the region. We don't have as
4 many of the big projects."

5 You know, I'm concerned, has the fact that we're
6 doing these two things at once, do you think the concern
7 whether it's the cost of competition or the threat to the
8 business model of the transmission owners has impacted the
9 planning process itself? It looks like Paul is ready to
10 take it on.

11 MR. SUSKIE: Sure. What we have found, actually
12 there's a number of companies that want to be in the
13 competitive model. Last year, I think it was 44 or 43
14 qualified entities to bid. This year I think there's an
15 additional ten and so as a result there's a real interest
in 16 it. Because we'd already had planning and cost allocation
17 in place it really didn't change us much on that end. Our
18 big change was implementing the competitive process.

19 Staff thinks it went well. There are some
20 lessons learned, we are going to try to improve it. In
21 general, I'd say we had positive feedback from the
22 stakeholders through that first competitive process. Now,
23 the entity that finished first that was outstanding.

Number

24 2-11, you know, they all have various challenges.

25

COMMISSIONER LEFLEUR: A few of them have come

1 around visiting I know us.

2 MR. SUSKIE: We realize that and so any time you
3 invoke that, it does invoke competition and that does
change
4 the nature of the relationship and the tenure. We did
have,
5 we did what I call the hybrid approach. We have a
6 sponsorship model in part whereas if you submit an idea and
7 it's selected and its bid you get a 100 point adder on the
8 thousand point scale. In that, now that's a very
9 competitive process on the front end and you also have a
10 competitive process on the back end so we're still seeing
11 through it. I think it went well. Can be some
improvements
12 but we'll have to wait and see. I haven't seen a reduction
13 in entities wanting to build. Actually the number of
14 members of the RTO has grown.

15 COMMISSIONER LEFLEUR: Have most of those were
16 new entrants to the region or, I mean, has it been a
17 transition for your incumbents?

18 MR. SUSKIE: There were, we did not publicly
19 state who bid, we just announced who won and who was second
20 but there were incumbents and non-incumbents and there were
21 new entrants that were formed by in companies. So it
22 definitely spurred a lot of interest in transmission
23 building.

24 COMMISSIONER LEFLEUR: I guess I'll start with

25 Mike and go down because I didn't count the cards.

1 MR. CALVIOU: A thought to the contrast
2 experience in New England and New York where we operate, I
3 think in New England where there's been always a very
strong
4 regional transmission planning process and good cost
5 allocation, there's been a lot of transmission build over
6 the past 10 or 15 years and therefore according to where
you
7 introduced Order No. 1000 there's not many big projects on
8 the horizon and therefore there's probably, we hadn't seen
9 much activity and there has been a concern that where
10 products are identified should there be allowed to process
11 only regional or local.

12 So there is a bit of a concern about potential
13 slowing down needed transmission development because of
14 legal discussions, etc. I think that evaluating New
England
15 is the fact that there is not a lot of load growth so any
16 new transmission projects are either going to be caused by
17 generation retirements which are going to come on short
18 notice and therefore probably be another three-year sort of
19 provision or going to be driven by the need for new, clean
20 energy and therefore at the moment that's being done by the
21 Freestate, the NJRFP which I think you heard about
22 yesterday.

23 So I think it's probably unclear at the moment
in

24 New England about the possible benefits and there are some
25 concerns. I think in contrast in New York where the

its 1 regional planning hasn't been as strong historically and
2 cost allocation is probably only started we resolved more
3 recently and we are starting to see FERC Order No. 1000 in
4 work as you might expect and there has been two
5 solicitations with a variety of projects coming forward.

6 So I think it does vary in terms of where your
7 starting point is and I think if the process is
8 well-defined, the scope is defined and there is a good way
9 of making sure that all the projects are being properly
10 assessed on a level playing field. Then it can be done and
11 it can produce benefits.

12 COMMISSIONER LEFLEUR: Thank you. Don?

13 MR. GULLEY: Commissioner, I have somewhat of a
14 unique perspective when it comes to looking at the value of
15 FERC Order No. 1000. Our business is somewhat, I'll call
it 16 schizophrenic in nature. We are a transmission owner and
17 operated. That serves half of the load of our member
owners 18 and then we're also a transmission dependent utility that
19 serves the other half of our load. So we see both sides of
20 the equation.

21 We're certainly interested and think that the
22 order can bring value in providing opportunities for
23 reliability projects and do it at the lowest possible cost.
24 Again you hear me continuing to talk about how does that

25 ultimately impact the consumer on the end of the line. But

1 it also may give us a unique opportunity to coin a phrase
2 "if you can't beat them, join them." While I also am
3 representing the national Rural Electric Cooperative
4 association and cooperation among cooperatives, there are
5 some within the NRECA organization that's looking at FERC
6 Order No. 1000 partnering and looking at opportunities to
7 use this to help offset some of the costs that we're seeing
8 on the TDU side of our business. Thank you.

9 COMMISSIONER LEFLEUR: Thank you. Steve?

10 MR. HERLING: As I said before in 2014 and 2015
11 together we approved 100 projects. In 2012 and 2013 each
12 year it was substantially higher than that. Hundreds of
13 projects. Had nothing whatsoever to do with Order No.
1000.

14 In 2012 and 2013 we were putting out projects that deal
with
15 the retirements that came in after the finalization of the
16 natural. Those projects have all settled out. The
17 retirements in the last year or so have been much, much
18 smaller than what we saw in 2012 or 2013.

19 The load growth has dropped off tremendously.
We
20 are looking now at 7/10ths of a percent a year. So the
21 number of projects at least in PJM has nothing to do with
22 Order No. 1000. We're introducing every need that we
23 identify and we're getting plenty of people to bid proposed

to 24 projects so nothing is changing in terms of the attention
25 the number of projects that need to be introduced.

1 COMMISSIONER LEFLEUR: With the low load growth
2 do you think we will see more market efficiency or public
3 policy driven projects?

4 MR. HERLINE: Yes, the drivers are going to
5 shift. Number one, you're going to see public policy, both
6 at the Federal level potentially driving resources all over
7 the grid at the state level bringing renewables and other
8 resources onto the grid. You're going to see aging
9 infrastructure, you are going to see resiliency. It's
10 changing the dynamic of what the needs may be and that

could

11 be lots of small projects, it would be any number of big
12 projects. Only time will tell but the introduction of
13 No. 1000 is not going to change the need. The need is
14 driven by all the factors I just listed.

Order

15 COMMISSIONER LEFLEUR: Alright. Mathew, thank
16 you.

17 MR. HOLZ: Two items. First the impact of the
18 process. I think the most apparent in the MISO process is
19 additional time in the bidder selection process. it adds
20 another year after board approval so there is a little

delay

21 on actual construction of the project itself. As far as
22 opportunities for developers within MISO it kind of goes
23 hand in hand with our proposal on the fixing the market
24 efficiency process. those are generally cost allocated

25 projects that would be open for competitive bidding.

1 They're going through that process now with Duff
2 Coleman recent market efficiency project within MISO. So
3 then you can lock in that underlying value. It would give
4 developers some additional opportunity within MISO and then
5 going along with NIPSCO I can't drop it or take advantage
of
6 the situation. Say interregionally there are opportunities
7 there as well with the different regional processes. If we
8 can bridge that gap and have a common joint analysis of
9 those interregional issues there are additional
10 opportunities there as well for developers so you can get
in
11 on that space.

12 COMMISSIONER LEFLEUR: Thank you. I know you
13 live on the seam. Thank you for both of those comments.
We
14 heard a lot about market efficient yesterday too. Heather?

15 MS. HUNT: Yes, thank you. I don't know that
16 there's been any evidence of any adverse effect on the
17 planning process for reliability project in New England as
a
18 result of Order No. 1000. ISO --

19 COMMISSIONER LEFLEUR: They excluded it from
20 competitive bidding anyway, right?

21 MS. HUNT: Right, right. So that said, New
22 England has had substantial investment over the past 17
23 years, 7 billion to date with about 5 billion on the
horizon

24 so we might be in that category of regions where they just
25 have that smaller projects coming down the pike in the

1 nearer term. I think the upside to your order is that
2 consider today consumers pay the cost of even incentives
3 associated with costs that exceed initial cost estimates
4 and those projects that exceed estimates also have a
5 presumption of prudence.

6 So the fact that we're talking about whether it
7 makes some sense to shift some of that risk around, we
think
8 it's very constructive. I think that has influenced the
9 states in connection with the three-state RFP that was
10 referenced earlier. That model sort of asks bidders to
11 assume some risk and there's a favor for that. With
respect
12 to the other component of Order No. 1000, at this time the
13 New England States don't intend to use the public policy
14 planning process. I think that was originally intended to
15 be a tool and that has at least potential if properly
16 structured to be a tool.

17 At this point the states are proceeding in
18 another way I think to get to the same end in a way that
19 they feel sort of better satisfied their needs in
connection
20 with the determinations at the end of the day in that
21 process.

22 COMMISSIONER LEFLEUR: Thank you. John?

23 MR. LUCAS: So Commissioner, let me see if I can
24 give you my take on it and I've got an idea on the end of

25 that that I, from listening to all five panels now, maybe

1 it's something the Commission can focus on. I would say in
2 general it's too early yet to tell. By way of a commercial
3 for the SERTP, so this is the largest planning region in
the
4 Eastern Interconnect by way of circuit miles, over ninety
5 thousand circuit miles. Ten sponsors, four of those are
6 jurisdictional, six are non-jurisdictional.

7 It covers parts of fourteen states through the
8 service territories of the, and we have a mixed bag. We
9 have incumbents and then we have at least one entity that
10 has a non-incumbent transmission development company. So
11 sort of benchmarking my remarks around that, we've not seen
12 a competitive proposal yet. We've not seen a proposal to
13 suggest a more efficient or cost effective transmission
14 project than what the ten sponsors have rolled up in a
15 regional plan.

16 COMMISSIONER LEFLEUR: You mean you haven't
17 identified any regional projects so you hadn't had any
18 windows? Is that right?

19 MR. LUCAS: No, we've identified a number of
20 regional projects.

21 COMMISSIONER LEFLEUR: That were not being done
22 before by the individuals?

23 MR. LUCAS: Right. We identified them but the
24 sponsors determined those were not more efficient and cost
25 effective than what we have rolled up into the local plan.

to 1 So they definitely performed their affirmative obligation
2 build. I think in the 2015 cycle there were nine projects
3 for that region identified. None of those determined to be
4 more efficient or cost-effective.

5 I think when and if we do get a proposal, as
6 others have commented, I think inherently it has slowed the
7 process. I think it's naturally added costs for the
8 sponsors and those who are participating to evaluate those
9 projects and go through them. I think, and it's pulled on
10 that string that I think Craig Glazer mentioned yesterday,
11 the L in planning. I think it just naturally gets to a
12 litigated sort of front when you can't get to a decision
13 and you're looking for who's the entity? Who's the
14 regulator that I need to help me with that decision? I
15 guess my thought that I commented about a fix to us, and we
16 tried to suggest this in a compliance filing and the
17 Commission did not see our way on this but I think we have
18 got to include the states earlier in this process. I heard
19 yesterday cost containment gets proposed, cost caps get
20 proposed, then it turns out you can't get a rate approved
21 consistent with the cost cap and so it kind of turns the
22 selection upside down.

23 In our model that we had originally proposed to
24 the Commission, we had intended that that state sort of
25 sign-off would be earlier in the selection so that the

1 developers would propose something, it looked like it might
2 be in the money. We would tell them, "okay sharpen your
3 pencil, make some filings at FERC, get it approved to where
4 we can contract for the revenue requirements we would need
5 to pay."

6 We envisioned they would go do that and we would
7 take that basket to the states and say "we've assessed it,
8 it has a higher benefit-to-cost ratio than what we were
9 doing in the regional and the local plan rollup. We stand
10 here with that developer, the contract with them, looks
like
11 we would have done it." We seek recovery at the state
12 level. And the Commission wouldn't allow us to sort of
13 include that state signoff step earlier in the process.

14 I feel like, after listening for two days, it's
15 something we ought to rethink and scratch our heads on is
16 that it would help the cost containment, it would help
who's
17 making the decision here because it would allow the
18 developer to go to the Commission, get that sign-off and
all
19 that package to be sort of signed off with the states and
20 then selected in the plan. With that, that's my thought
for
21 the day but I'll quit.

22 COMMISSIONER LEFLEUR: Well, thank you for that
23 thought. I think you all for your comments. I didn't,
lest

24 anyone wonder, it wasn't that I was rethinking whether we
25 should reinstate the roll-up, just to make sure that we've

1 set up a robust process. we've heard a lot yesterday and
2 today about the importance of confidence in the process,
3 which I think is what your comment went to, John and we
4 heard a lot about making sure that people were competent
and

5 I'm interested in any suggestions on what we can do with
6 this panel to make it better.

7 Ironically, when we looked at all the compliance
8 filings there was a sense that the more hard-wired it was,
9 the clearer it was, but yet we heard yesterday that the
10 California process, which is very nuanced and undefined
11 seems to be going beautifully and everyone has confidence
in

12 it. So we're learning as we go how these processes work.
13 If there are suggestions you have as to how we can build
14 more confidence in the process and also the two regions
that
15 have done effective windows spread that to some of the
16 regions, spread the lessons to the ones that are coming
17 along. I would welcome suggestions from any of you.

18 MR. HURLING: I would agree that hardwiring a
lot
19 of the requirements in the tariff is not the way to get to
20 that level of confidence. It may give people a better
21 understanding or the perception of a better understanding
22 going in as to how decisions are going to be made. Really,
23 what we have heard from our stakeholders and what we are

24 endeavoring to pursue is a much tighter degree of
25 communication.

1 We've met with some of the Staff at Cal-ISO,
2 Catalia so about some of the reports that they have put
3 together after their windows and then we're trying to steal
4 some of their ideas there. It's really about, and I
5 mentioned it before in my opening comments, you know,
6 transparency at the front end, people need to understand
7 you're doing what you're doing. What are all the drivers?
8 What are all of the assumptions?

why

9 Transparency during the analysis, as you're
10 evaluating the solutions that have been proposed and
11 transparency at the end, so everybody knows why you've
12 picked the solution that you picked and then how they did.
13 We've done well with the first one and I think with the
14 second one, not so well with the third one. That's an area
15 we need to improve. You can give guidance in that
16 direction, that would I'm sure be helpful but adding dozens
17 of tariff requirements, honestly is just going to make the
18 process take longer.

19 We've been tripping with our stakeholders as we
20 go through the analysis. We're constantly getting
21 challenged as to, you know, the tariff says this, how does
22 your analysis line up with that? You're doing this
23 sensitivity, have you done this sensitivity -- yes -- and
24 we've spent months and months and months trying to ensure
25 that we've covered every last requirement. The important

1 point is the communication. Not an endless punch-list of
2 requirements.

3 COMMISSIONER LEFLEUR: Well, thank you for that.
4 That's very helpful. I mean it's always a challenge how to
5 spread best practices without requiring uniformity and that
6 spectrum is hard to gauge. Yes?

7 MR. GULLEY: Yes, thank you. When you talk
about
8 competence, I'll just touch on one thing Mr. Hurling said.
9 He talked about results. The more that we can measure
those
10 results and go back and look at how we did on specific
11 projects based on what the planning was, what the benefit
and
12 cost-ratios were, the more I think we're learn from that
13 the better the process will get.

14 Commissioner Honorable, you talked earlier today
15 about your kids in school and how you'd like to see them do
16 well quarter to quarter. I have a daughter, she's a senior
17 at Kansas State University. She takes exams through the
18 semester and then she takes a final. Well, in order to
take
19 a final, in order to do well, she has to go back and look
at
20 those past tests and look at those past results on what she
21 needed to learn and what she needed to brush up on before
22 she got to that final.

23 So my message and my recommendation there is

24 let's go back and measure those results.

25 COMMISSIONER LEFLEUR: Thank you. Mike?

1 MR. CALVIOU: Yes, I'll probably just echo the
2 point about transparency. I think it's vitally important
3 that there is really good transparency all the way through
4 the process about what the process is going to be, what the
5 evaluation criteria are and I think it will be the key
thing
6 and this is a challenge is trying to ply as much clarity on
7 what it is the evaluation criteria will be.

8 So yes, projects will have different costs but
9 they'll have different benefits and I think we've heard
over
10 the last couple of days there are also different ways of
11 structuring projects which inevitably means that actually
12 comparing one project to another is not straightforward.

So
13 I am wondering whether there might be some benefit.

14 You don't want to overly constrain an evaluation
15 but at least I think someone suggested earlier today some
16 sort of framework about what is sensible to consider within
17 these competitive processes. So I was getting very
18 concerned about this idea about different ROE evaluations
19 within different projects being bid because you're then
20 asking, RTOs in my opinion, who almost act as some sort of
21 quasi-regulator and take a joke. RTOs are great to assess
22 technical merits, cost effectiveness. Asking them to sort
23 of weigh the different merits or in particular proposals
24 around different ROE and cap structures feels to me as

25 though getting them out of their expertise and overly

1 complicating a very, very complicated assessment process.

2 So I think some sort of clarity over evaluation
3 criteria would be good and some sort of frame work where
4 within this is where we expect to see innovation and this
is

5 where innovation is actually unhelpful and
overcomplicating.

6 COMMISSIONER LEFLEUR: Thank you. Matthew?

7 MR. HOLTZ: Yes for focus, for the Commission on
8 areas of improvement, really I guess I'd suggest a focus on
9 the identification process. Not necessarily the
competitive

10 bidding process after the fact. On the regional side,
11 within MISO, within the market efficiency space there are
12 wide range in futures that lose focus on the current data
13 gap between the market operations and long-term planning
14 with the focus shifting where the market efficiency process
15 on those ranging futures, it tends to mute the system
16 benefits that are better there in current-day operation.

So

17 focus on refining that process down to make sure that the
18 RTOs are capturing those system needs currently there and
in
19 the known future.

20 Interregionally, there are differing regional
21 processes. I know PJM MISO is even stated as such and part
22 of their interregional process and that we've linked to

go

23 material there and compared comments. So whatever way we

24 on the interregional space there needs to be continuity

25 commonality on the modeling. You know, we gave an example

the 1 on page 9 of, it was originally in our complaint docket,
2 disconnect between the regional models. This was just on
3 the generation sitting within the models, up to 10 percent
4 difference in model capacity between the two RTOs so not
5 only this, the volume of generation within the model matter
6 but the location and it tends to shift the congestion
7 patterns, so within the model itself.

8 So yes, focus in on the model itself. Getting
9 away from the wide range in futures in the regional space
10 and focus on the different models between the original
11 space.

12 COMMISSIONER LEFLEUR: Thank you. Heather.

about 13 MS. HUNT: In connection with your question
14 how to share some experience from region to region. Before
15 New England understood that we were unlikely to see any
16 competitive processes last year we co-hosted a forum with
17 ISO and we went in and invited the other RTOs to come to
New 18 England and talk to stakeholders broadly about their
19 experience, really drilling down in sort of case studies
and 20 to share, if somebody were pursuing that again, what at the
21 few things that they would recommend doing and avoid doing?

22 We found that to be extremely constructive as
did 23 all the stakeholders in the region. So if you're thinking

24 about technical conference on a going forward basis, that
25 sort of sharing of best practices and what to avoid, we

1 found very helpful.

2 COMMISSIONER LEFLEUR: Why do you think the
3 region chose not to use the process that Order No. 1000
4 afforded and just start a parallel process. I mean, what
5 you said earlier, that you chose to plan it a different
way.

6 MS. HUNT: Right. And this is in relation for
7 those folks in the room who might not be familiar with the
8 New England path at this point.

9 COMMISSIONER LEFLEUR: I thought it was more
10 choosing generation than transmission, I thought it was
11 that.

12 MS. HUNT: In connection with the half of Order
13 No. 1000 that's about public policy we're in the DC circuit
14 with you now. The basis for that, the legal basis is
really
15 at the beginning of the process. I think the Commission
16 intended Order No. 1000 to be a tool that states could make
17 good use of to execute public policies. There was not a
18 requirement that ISO New England would have to select a
19 project per se.

20 At the end of the day, at the end of that set of
21 orders, ISO New England would be the entity that would
22 select what project, at what cost, where would satisfy
state
23 public policy objectives. So that's a concern that was
sort

24 of a shift. I think the fact that the states have moved
25 forward with, three states have moved forward with an RFP

England 1 for clean energy projects are the three southern New
2 States. NESCO assisted with sort of
3 putting that together but it was a three-state effort, not
4 a six state effort. Goes to a fundamental principal which
those 5 is that at the end of a process, the states want to be
6 exercising their judgment as to what project moves forward
7 to meet what need and at what cost.

8 COMMISSIONER LEFLEUR: That is all kinds of
9 interesting issues for the markets too, but that's not for
10 this conference. Thank you very much. Omar?

11 MR. MARTINO: Thank you, Commissioner. As an
12 independent power producer, one of the things that we would
13 like to see have more confidence in the process is really
14 for the Commission to consider, to seriously consider and
15 take a look at how to integrate interconnection planning or
16 interconnection generation planning and transmission
17 planning processes together.

18 The second item that I would like to discuss is
19 also the inclusion of market efficiency projects, just like
20 my colleague NIPSCO mentioned earlier, we see a great
21 opportunity to count those included in FERC Order No. 1000
22 and really to take a look at the broader perspective of how
23 to really, seriously deal with the congestion at the seams
24 and how to manage and mitigate that, that congestion. One

the 25 of the thoughts we have is that we would definitely like

1 Commission to consider tariff changes. Tariff changes that
2 would dictate or mandate the management of congestion at
the
3 seams. No more than that, but also the development of
4 metrics as to how to manage that congestion. One of the
5 biggest issues that we see as an independent power producer
6 in the lack of metrics for congestion management is the
fact
7 that the of congestion relief is actually not included and
a
8 benefit.

9 So as NIPSCO pointed out earlier in the
10 presentation, MISO has suffered about 6 billion dollars
from
11 2008 to 2015 in congestion costs. I can't recall a time or
12 a place where I have actually seen a project that has been
13 developed and implemented at the seams. So the overall
14 message to conclude would be to really have the Commission
15 to include interconnection planning into FERC Order No.
1000
16 and to include a very precise, concrete and deferent
17 process to manage congestions including appropriate
metrics.

18 COMMISSIONER LEFLEUR: Thank you. I'm confused
19 by your comment that relieving congestion isn't a benefit.
20 Isn't that the benefit of economic projects?

21 MR. MARTINO: Our understanding, so what I said
22 earlier was that the actual relief of congestion is

23 sometimes not properly accounted for in evaluation of
24 certain projects and therefore that should be itself a
25 metric to consider projects to go forward.

1 COMMISSIONER LEFLEUR: Thank you very much.

2 Thank you all. Norman?

3 CHAIRMAN BAY: Thank you, Cheryl. Tony?

4 COMMISSIONER CLARK: I think I'd like to pick up

5 where Cheryl left off because she, I think she called it

the

6 irony where it's something that's been gnawing at me a

7 little bit too and I'm not sure exactly how to get my arms

8 around it so I'm hoping that y'all can help me with that?

9 COMMISSIONER HONORABLE: Did you say y'all?

10 COMMISSIONER CLARK: I think I did. I've been

11 listening to Suskie here a little bit so --

12 (Laughter)

13 And the question is this, maybe this is what it

14 boils down to. How do we actually define transparency?

15 Because we keep talking about it and as I noted the similar

16 irony which is we hear about transparency, we want

17 transparency and yet the two models we keep hearing about

is

18 the ones that seem to be kind of generally working and are

19 sort of book ends to the California model which where is a

20 lot of discretion to the ISO and I don't know if it's

21 entirely transparent to me, I just know that it seems to be

22 working for that region, I guess and then the sponsorship

23 model you hear PJM all the time. Which again, the

24 sponsorship model is, maybe it's just my understanding of

it

25 but it's a little bit more of a black box in a sense.

1 They're taking all sorts of factors into
2 consideration. But in both cases it's up to the ISO to
3 basically make a call and then justify that call and be
able
4 to defend whoever disagrees with it, presumably in front of
5 the Commission. A model that I have heard some
disagreement
6 with both prior to this and we had a little bit of it
7 yesterday is some of the more strict, point-based
8 mechanisms and Paul, I don't know if you were here for that
9 part of the discussion but one of the, I think the SPP
10 region was one where you heard that issue come up and I had
11 heard that before.

12 So some of the regions have arguably, I think I
13 could make the case, I'd say very transparent type of
14 process. you get X number of points for this happening and
15 we total up the points and whoever gets the best score
wins.

16 That seems very transparent and yet we've heard that maybe
17 that's not as transparent. So Paul, I'll let you chime in
18 and help me understand how we define transparency exactly
19 and what works and what doesn't.

20 MR. SUSKIE: It's a great question though when
21 you get competitive you can't be transparent at some point,
22 at all, because it's a competitive process. I'll go
through
23 ours. We have a thousand point allocation ranging from a

and 24 hundred and I think twenty-five points up to two hundred
25 fifty points in five categories: Engineering design,

1 construction, operation, finance and then rate analysis.

2 What's the rate impact?

3 So it's in the tariff, it's very broad and
that's

4 how it's measured out. We have an independent expert panel

5 that actually, five people, they got in and they scored
them

6 and nobody even knew who the panel was that scored them.

So

7 we went through the first process and it was enough there

8 for them to judge but after going through the process, some

9 of the stakeholders and competitors say they want a little

10 more detail around it. So I think the detail is there.

The

11 question is how much more to add.

12 But when it comes to the actual proposals being

13 submitted, there were only five -- no excuse me, six or

14 seven SPP employees that ever looked at them because that

15 was confidential. We didn't want anything disclosed. We

16 didn't even publicly state who the panel members were and

17 the panel members then revealed themselves whenever

Chairman

18 Bay was there when they came to the SPP Board maybe and

they

19 presented their recommendation to the Board of Directors

and

20 who ultimately made the decision on their recommendations.

21 So part of that, when people switch proposals

and

22 is competitive you can't disclose those because a
competitor

23 can find out "well, they bid 14 million, well I'll do 13

24 million." So part of it can't be, but the process going

25 through, I think, could always be transparent. I think
ours

1 was very transparent. Some just wanted more details as to
2 how they get a better competitive edge I think.

3 COMMISSIONER CLARK: Thanks, sure. Steven?

4 MR. HERLING: Yes, I'll start with transparency
5 is in the eye of the beholder. We have been arguing our

way

6 through one particular project for six or nine months now.

7 Every month we have a transmission expansion advisory

flurry

8 meeting. Every month we present results and we get a

9 of questions and additional request for information and

next

10 month we will bring them back and to me, that cycle of

11 presentation, review, questions, more presentation, that's

12 transparency okay.

13 Having my people sit in a glass room so that

14 everybody can watch them do their work, that's not

15 transparency. That's what some of our stakeholders would

16 probably like, but that's not going to happen. Having a

17 scorecard alone is not transparency. If you get a hundred

18 points for category A, how was the decision to give you a

the

19 hundred points made? That's transparency. Knowing what

20 scale was and knowing what your score was is not

21 transparency.

22 So the challenge for all of these models is

23 getting to the level of transparency that the stakeholders

24 are comfortable with so that they understand how the

25 decision was made so the right answer for transparency for

1 SPP is going to be different for PJM, going to be different
2 than CAL ISO, you know it's unfortunately something that we
3 are going to be chasing for a while and everybody has to
4 accept the fact that whatever you think you're doing is
good
5 enough; it's probably not.

6 There are going to be things that people need
7 more information legitimately and you just have to do your
8 best to go after that. We're struggling with it but we've
9 been doing the lessons learned exercise for probably a year
10 and a half now and just taking a lot, hearing what people
11 have to say. Taking a lot of input about what we're not
12 doing that they need us to do and virtually all of it is
13 around some aspect of transparency. Getting them more
14 information about how we're doing our job. That's not a
15 real complete answer but it's more of an amorphous kind of
a
16 thing.

17 COMMISSIONER CLARK: Yes, Donald.

18 MR. GULLEY: Yes. Thank you. As one of the
19 beholders, I like what this guy is saying. Yes, we do need
20 to get it down to a level that I can explain in my
21 boardroom. It's not necessarily about just the
transmission
22 and just the congestion improvements. It goes down to the
23 market participant level. As an owner of generation in
that

24 market, changes in transmission also affects our

25 generation, in terms of environmental controls, in terms of

1 fuel, there are many more impacts that we have associated
2 with transmission development. We can do the
3 analysis but we need the inputs and the information to be
4 able to get it to that level so that we can discuss and
5 describe what that impact to us is at the bottom line
level.

6

7 COMMISSIONER CLARK: Thanks. Mathew and then
8 John.

9 MR. HOLZ: This was probably transparency,
having
10 more metrics up front around the project need, really
11 focusing in on that connection between market operations
12 driving the need for transmission projects or even the
model
13 and future impacts, the CPP or with the MISO NBP portfolio.
14 There is a transparency up front and drivers. You could
see
15 it in the analysis and it helped kind of quell any issues
16 with the results. Is there consensus across the MISO
17 footprint on MVPs.

18 There's still some that may not see the full
19 benefit but it certainly has helped to bridge that gap and
I
20 know Omar had touched on it earlier too about having those
21 metrics in place to identify where those bottlenecks in the
22 system really hurt the customers and the power producers
and

23 those metrics are available if the RTOs are operating our
24 markets. The metrics are there, it's just a matter of
25 rolling out and using them.

1 As far as the selection process, probably need
2 some more time to see how it plays out. No experience in
3 the PJM side with the sponsorship model already. MISO is
4 going through it now for the first time with the Duff
5 Coleman so perhaps an additional experience seems to be had
6 on the different models first before exploring it.

7 COMMISSIONER CLARK: John.

8 MR. LUCAS: So Commissioner I think it's a very
9 tough question, I guess one I didn't fully appreciate until
10 I got here yesterday. If you think about transparency it
11 was back in the Order No. 890 principles I'm sure. I mean
12 it started there and Order No. 1000 just expanded on it.
13 sense is, and Paul touched on it, when you get into a lot
14 competitive proposals and people want to know well how did
15 you arrive at your decision on those proposals? That's
16 tough. I don't think you can crack a one-size-fits-all fix
17 on transparency.

18 I think you've got to rely on the regions as
19 they've all sort of implemented this in a bit of a diverse
20 fashion. Rely on those regions to work with their
21 stakeholders and get it to a point where nobody feels like
22 they need to come up here to FERC and sit in front of an
23 administrative law just to settle that. They would rather
24 do it back in their region. To me, I don't have a fix, but

My

of

just

25 I just think it will naturally, it will come to a

1 settled-out spot as we have more experience with these
2 processes.

3 COMMISSIONER CLARK: Omar?

4 MR. MARTINO: Thank you, Commissioner. I would
5 like to respond to the question slightly different from my
6 colleagues on the panel. The way that I would approach the
7 response is essentially to have a view, an overview, an
8 understanding of some of the fundamental reasons that

things

9 are actually not being conducted at the RTO level, that we
10 feel that should be under Order No. 1000.

11 One of those things is, for example, the metrics
12 definition. I am not going to touch upon that again but an
13 interesting idea is also the non-transmission solutions or
14 non-transmission alternatives, NTS or NTAs. There has been
15 you know, several comments submitted for the utilization of
16 technique such as dynamic line loadings or PMUs which are
17 phaser measurement units or even innovative ideas were are
18 available today in the marketplace such as high temperature
19 conductors which essentially are what I would like to call
20 you know, very low hanging fruit solutions to potentially
21 major transmission problems including the relief of
22 congestion so when I see that there are, some of these
23 alternatives are available today in the market.

24 The technology exists, it's actually being

25 utilized ad hoc in the strip-miners but when it is not
under

1 an umbrella under a constant or standard utilization that's
2 something that really indicates to us that the process is
3 not you know, very transparent and we'd like to see
4 improvements in transparency regarding the utilization of
5 non-transmission solutions and non-transmission
6 alternatives in both the regional and interregional level.

7 COMMISSIONER CLARK: Thanks. Just one, I think
8 this probably falls under the category of observation but
if
9 anybody wants to comment on it, feel free. Although this
is
10 really more Western related and this is kind of sort of an
11 Eastern interconnection-heavy panel, but it's this. We've
12 had a fair amount of discussion about the California model
13 being fairly widely accepted within California. I do
14 wonder, in getting to your question, Cheryl, about
15 transferability between regions how much of that can be
16 applied to other reasons for this.

17 I wonder how much of the success of that model
is
18 related to basically a single state ISO, one retail
19 regulator, a state with very strong sort of public policy
20 choices that simply says, this is the direction that we're
21 going in. How much of that enables ISO to have some of
that
22 success and if a broader regional market begins to develop
23 in the West if we won't start to see some of the same

24 concerns that we see in more multistate, broader regional

25 regions of the country that doesn't really have anything to

1 do with that particular ISO, it just has to do with that
2 model. It has to do with the characteristics of the
3 single-state ISO. Steve.

4 MR. HERLING: At least the proposal process that
5 they used, approach that they used I think is transferable.
6 We've looked at it very closely, depending upon how well we
7 fair and moving forward with our process. That is clearly
8 an alternative where you do a lot more of the planning
9 toward one solution up front and then you take a different
10 approach to selecting the party that's going to build the
11 project. The success of that, yes, maybe in California the
12 success of that is a function of their relationship with
13 state but I think that with the core model it's
14 transferrable. It's a fundamentally different approach to
15 you know, how you pick the best, most effective project and
16 then how you go about selecting the builder.

17 COMMISSIONER CLARK: Yes. Thank you.

18 CHAIRMAN BAY: Thank you, Tony. Collette?

19 COMMISSIONER HONORABLE: Thank you, Mr.

the

Chairman.

20 Thank you all. Hang in there, we're nearing the end and to
21 all of the folks who get a gold star for hanging in there
22 all day. I have to find some gold stars so you can come
23 get one if you like. I want to switch gears a little bit
24 and talk about something that I've heard about as being a

and

25 concern and we have quite a few of you who are very

1 experienced in different stages of planning and that is
2 voltage thresholds so my perspective is clearly very
3 different. I'm a state, former state regulator now, Federal
4 regulator that has been a stakeholder, if you will in the
5 transmission planning and cost allocation process.

6 I've understood that at times, I hate to use the
7 word gaming because it's a very strong word to use but do
we
8 at times see an effort to attempt to broaden the benefits
so
9 that we can share the costs among a number of different
10 areas or conversely a lowering of the voltage threshold to
11 keep projects local. That's a powerful question at the end
12 of the day. A loaded one I'll say. Lots of tin cards.
13 Okay Michael, we'll start with you.

14 MR. CALVIOU: Yes, I think it's clearly a
15 question that applies in both cost allocation and in terms
16 of where you apply competition. Certainly in New England
17 where we have a pretty well-defined definition of what's
18 regional, what's local, we still do that. Regional has
19 regional cost recovery, cost allocation. Local is just
20 recovered by the local transmission company's customers.

21 However you then get some local projects which
22 then have components which have some regional benefit and
23 normally they would go into a sort of regional cost
24 allocation that some component that's you've got the issue

25 about well we have to apply that little bit. We might have

1 to be completed even though, given all the comments earlier
2 about competition, how do you make sense of the small
3 projects. It wouldn't make sense.

4 So I think there's some issues there. I think
5 you know, broadly regional cost allocation is right and
6 focusing the applicability of competition on those
7 particular regional projects doesn't make sense. There
will
8 clearly be issues that sort of at the margins. I do
support
9 things where below you know, whether it's 200kb or
something
10 like that, the small scale local stuff is kept more for
11 local transmission companies too and is kept out of
12 transmission for reasons that have been discussed earlier.

13 COMMISSIONER HONORABLE: Don.

14 MR. GULLEY: You're probably surprised I was
15 going to answer this question, aren't you? I'm going to
16 flip the switch and go to my TO and put on my transmission
17 owner hat and I can tell you from a local perspective, we
18 build for reliability, reliability only. So we keep the
19 costs within our own zone and only our members are paying
20 those costs. So we're very concerned about what those
costs
21 are so we look at projects strictly from a reliability
22 perspective. We're not looking at it from the perspective
23 of a ROE or spreading costs to other people. It's all
about

24 the end of the day. It's all about the rates.

25 COMMISSIONER HONORABLE: And your members.

1 Absolutely. Please.

on

2 MR. HERLING: Yes, I would say you know, based
3 the way our planning process works our transmission owners
4 you know, don't have the ability to try to drive a project
5 down to a lower voltage to keep it local, or to a higher
6 voltage to foist the cost on someone else. On Order No.
7 1000, really ensures that can't happen as is with my views.

8 COMMISSIONER HONORABLE: It should ensure that.
9 So that's really my question.

project

10 MR. HERLING: It certainly does because if the
11 transmission owner tries to drive a project up to 500kb so
12 that a portion of the cost will be shipped off to somebody
13 else, another party, a non-incumbent will come in with a
14 proposal and we will have to evaluate the two and show that
15 one is the better project. If we believe the 500-KB
16 is the better project, that's what we're going to run with.
17 Not because we're trying to drive the cost allocation but
18 it's the better project.

in

19 You know, PJM we try to avoid any use of cost
20 allocation and I know some people are not happy with us
21 about this but we try to avoid the use of cost allocation
22 deciding what is the right project to build.

23 COMMISSIONER HONORABLE: What needs to be built.

24 MR. HERLING: What needs to be built is based on

25 the drivers and the analytics of comparing all of these

1 different proposals. I think Order No. 1000 should prevent
2 the ability of any party to force a project in one
direction
3 or the other for their own benefit.

4 COMMISSIONER HONORABLE: Matthew.

5 MR. HOLTZ: First, I know this was an issue in
6 our compliance in EL13-88 so we do appreciate the order on
7 eliminating the whole structural in MISO PJM JOA. As far
as
8 the voltage thresholds in general, it really has less to do
9 with the actual voltage itself and how the systems connect
10 and how it operates. So for example in the NIPSCO system,
11 we have along the southern part of Lake Michigan, Northern
12 part of our territory, we have heavy industrial customers
so
13 it requires a robust system. It's 138KB lines connected
and
14 parallel with 345-KB lines, all connected and parallel with
15 PJM 765-KB line.

16 That whole system works together to move power
17 through the NISPCO footprint. So I doesn't matter in
18 voltage there. The eliminating element along that path are
19 138-KB lines on that system so you have a 138-KB project --
20 they freeze up that higher voltage system to move more
21 economic power. Other parts of our system are focused on
22 serving loads so we have 130-KB lines in towns and rural
23 areas where there's less impact to the overall grid. So it

just 24 has really nothing to do with the voltage itself. It's
25 how the systems are connected together.

1 COMMISSIONER HONORABLE: John.

2 MR. LUCAS: Commissioner, I've thought about it
3 in the context and I don't see a gaming opportunity with
4 respect to the voltage levels at least among the SERTP
5 sponsors, and I think that's attributable to the Commission
6 tightened those thresholds pretty good in the compliance is
7 what I think. I think they are at a pretty base level now.
8 You drive that lower and I think you're going to frustrate
9 the timing and the whole process in trying to get more
10 projects to address those lower voltage type items.

11 COMMISSIONER HONORABLE: Omar?

12 MR. MARTINO: Thank you, Commissioner. We think
13 that it is very important to ensure that the Order No. 1000
14 does in fact include lower voltage KB transmission and that
15 is really fundamental for a number of different reasons.
16 The first reason is because it is really cost-effective to
17 upgrade a lower-voltage KB transmission line is
18 cost-effective as compared to potentially building a much
19 more significant transmission line. Not only
20 cost-effective but it also has a good impact on either the
21 environment ratepayers but the utilization of existing
22 right-of-ways. You don't have to enhance additional
23 right-of-ways to actually build new transmission.

24 But it's also very important to actually develop
25 the metrics to ensure that low voltage KB voltage lines are

1 actually included in the order. The other point I want to
2 emphasize why this is important to include the low voltage
3 KB transmission is to point to a very specific example
4 within the MISO and PJM seams. Most of the congestion
5 actually happens at the low voltage KB. So exclusion of
6 those, which is probably actually happening today, is one
7 the fundamental reasons there's actually no planning
8 development or transmission development to mitigate the
9 congestion because those voltages are simply not included.

10 To conclude, I do want to point out that the
11 fight of these transmission upgrades had been excluded,
12 to a group of generators in MISO including EDFRE to
13 find around 60 million dollars of transmission at the seams
14 and that's the only project we are aware that have actually
15 been triggered to actually mitigate congestion and we feel
16 that process, the actual funding by generators because both
17 MISO and MPJ failed to identify and to implement the
18 appropriate measures, is unjust, is unreasonable and is
19 definitely something not that the Commission should allow
20 continue by enforcing the including of low-voltage KB
21 projects under FERC Order No. 1000.

22 COMMISSIONER HONORABLE: Thank you and I did
23 that point in your written comments. I think you did

of

lead

actually

to

read

24 reemphasize that here today. Thank you for sharing that
25 perspective. Thank you all.

1 CHAIRMAN BAY: Thank you, Collette. So I was
2 struck by the comments of Paul and Steve in that there may
3 be some projects where the cost benefit analysis does not
4 justify the projects being put through a competitive
5 process. I'm wondering whether any of the other panelists
6 have any concerns with some sort of cutoff in recognizing
7 that the devil's in the details and you have to figure out
8 what that criteria are but whether conceptually the other
9 panelists have any concerns with trying to perhaps exclude
a
10 certain category of projects from a competitive process?
11 Matthew?

12 MR. HOLTZ: The thing that comes to mind when
you
13 get to a point where the project's been identified and the
14 reliability window is baseline reliability project,
15 typically it's within a short time-period. So a lot of
it's
16 just on time of execution to make sure upgrades get in
17 place. Prior to the date of the need. There is little
18 greenfield in baseline reliability projects that should be
19 kind of few and far between but those were the only ones
20 that I could think of that you know, there is that clock
you
21 are working against and if you have to go through a
22 competitive bidding process, it could slow it down. You
23 could miss your date.

24 CHAIRMAN BAY: Heather?

25 MS. HUNT: I don't think the six New England

1 States have an interest in competition for the sake of
2 competition. We'll talk about that and put something in
3 comments to you as a follow up. I will say though that if
4 there is a way to try to capture the sort of directional
5 benefits you were seeking to capture through competitive
6 processes and find a way to apply those to projects that
7 aren't subject to competition and that is the allocation of
8 risk for first day of cost overruns and so forth. That
9 would probably stop in any concern with excluding certain
10 projects from competition.

11 CHAIRMAN BAY: Steve?

12 MR. HERLING: Obviously our planning process
13 drills down through every tariff facility so we will have
14 upgrades of 115-KB disconnects which end up in the RTO. If
15 a project is only going to cost a hundred thousand dollars
16 to implement, what possible savings could there be to
17 customers if we ran that through a competitive solicitation
18 and would it justify the kinds of costs that I think Paul
19 was talking about before, and he was talking about a
20 multimillion dollar project that half of the cost was eaten
21 up by, well not eaten up by, was spent by the various
22 participants to make the bids and exercise the process.

goals

23 If the goal of Order No. 1000 or one of the
24 of Order No. 1000 is to save money for customers we should
25 be looking for the projects where there is at least a

1 reasonable opportunity to accomplish that. Our focus I
2 think would be better directed at those projects than at
the
3 small stuff where at the end of the date, it's going to be
4 reserved for the transmission owner anyway and there will
be
5 no benefit of having gone through that process.

6 CHAIRMAN BAY: Have you been thinking about a
7 dollar cutoff, or what time of criteria have you been
8 considering? Paul mentioned several that SPP has been
9 talking about or considering.

10 MR. HERLING: Yes. We have not been
specifically
11 looking at a dollar threshold but looking at groups of --
12 you know we've been running the RTP for 16 years so we have
13 a lot of experience with categories of projects where after
14 doing it hundreds of times we can show this project, 99.4
15 percent of the time ends up with a small upgrade to the
16 transmission owner. So we're looking at categories.

17 CHAIRMAN BAY: Sounds like the metrics that
Don's
18 been talking about. Don?

19 MR. CULLEY: Yes, thank you very much. That's a
20 very good question, a very tough question to answer as well
21 because it's going to be, I know it when I see it. I would
22 recommend that the Commission look as we continue down the
23 line here with future technical conferences, that we look
at

24 some sort of screening process. That would help me feel

25 more comfortable with the process as it's going forward and

1 certainly with the people that are out there on the end of
2 the line that are paying for this development.

3 I would look to the experts to help us. Those
4 that have done and gone through this process many times to
5 help us define what those screening criteria are or what
6 they can be and then look for some form or some framework

of

7 cutoff early on in the process. ultimately, if it helps
8 save money, that's the right step to take. Thank you.

9 CHAIRMAN BAY: Michael.

10 MR. CALVIOU: Yes, I think some sort of cutoff
11 does make sense. I suspect the detail of that could
12 probably be left to some sort of regional development and
13 regional state processes. I'm not sure one size fits all
14 for the whole of the country. Certainly the time point I
15 think is important. I think there will be projects that

are

16 reliability driven. Competition does add on timescale onto
17 the transmission project development timescales so I think
18 having the ability to do projects which they need a three
19 year horizon just to get on and do them, I think is
20 important.

21 Something around the size of projects, whether

it

22 should be a dollar, dollar cutoff or something else as

Steve

23 was talking about makes sense. In New England, we used the

24 Regional West Local as a cutoff and that does seem to work
25 quite well.

1 CHAIRMAN BAY: Well, thank you and colleagues,
2 any closing remarks, other questions? Cheryl?

3 COMMISSIONER LEFLEUR: I don't have other
4 questions. I just wanted to thank everyone who has
5 participated over the last two days and all the folks on
6 Staff who flipped this together, to say nothing of who
7 worked on Order No. 1000 for the last six years. It has
8 definitely satisfied the objectives I came in with, which
9 was to really think about how the competitive process is
10 going, how it fits with our ratemaking and incentives, ways
11 that we might need to give more guidance to make sure that
12 Order No. 1000 was delivering the value to customers that
13 it's supposed to be delivering.

14 I really appreciated the conversation on
15 interregional and where we go with that. I'm not going to
16 lie that I have a proclivity toward action just because of
17 the time it takes to do anything. I generally have a
18 proclivity to start. Very interesting in hearing from
19 people who are not on the panels, including answers to any
20 of the questions I posed. Thank you very much.

21 CHAIRMAN BAY: Thank you, Cheryl. Tony?

22 COMMISSIONER CLARK: Thanks to everyone for
being

23 here. Cheryl, with regard to your comment with how long
24 things take, I was observing during one of the panels
25 related to transmission incentive rates that I joined the

1 Commission just in time to be recused from the initial
2 policy statement because I had some recusals that were
3 pending at that time and depending on how long this takes I
4 may be off the Commission before we get to it so I feel

like

5 I'm in a really good spot. Whatever happens I can complain
6 about it in a future life and be guilt-free.

7 CHAIRMAN BAY: Thanks Tony. Collette?

8 COMMISSIONER HONORABLE: Thanks Mr. Chairman and
9 thank all of you. When he mentioned that Tony and I kid

one

10 another, we've known each other for quite a while, I told
11 the Chairman that we should hurry up and do something else
12 so that Tony can endure this experience with us and have
13 something to leave with. I want to thank all of you

because

14 I know that you haven't just gone through the motions. You
15 didn't just show up here today to come sit in a chair and
16 read something then go back to your respective places.

17 I really feel better educated about what's
18 actually happening in the industry with regard to our
19 collective effort to build the transmission that we
20 absolutely need for whatever reason. I think we've already
21 headed in that direction, if we get the Clean Power Plan we
22 absolutely need to be ready for that and for all of the
23 other challenges that you all are facing coast to coast, we
24 are facing them all together and as much as the mix is

25 changing so dynamically and so many things are happening at

1 the local level that are really intersecting robustly with
2 regional processes.

3 So there couldn't be a better time than the
4 present to explore these issues together. I think we've
5 challenged one another too in the panels that we've seen.

I

6 think that we will grow together through this experience

and

7 be open to moving in ways that ultimately benefit
consumers.

8 Again, that's where my focus will be.

9 I want to thank those of you in particular who
10 participated or filed comments with regard to the
11 interregional planning effort. That's a very hard, hard
12 topic for all of us and when Carl Monroe was speaking and
13 spoke of the very long thing with MISO I felt some level of
14 guilt having been one of the state regulators who approved
15 the integration into MISO but he was very gracious and
16 didn't mention that point.

17 (Laughter)

18 I look forward to working with you more
19 importantly. I do feel optimistic because we are all so
20 committed to this work, nothing but good can become of this
21 and I truly believe that. So thank you, I look forward to
22 your post-technical conference comments and Steve Gaw,
we're
23 going to get you and John escorts out of here. You talk

24 about more technical conferences. John mentioned something

25 about cost containment so we will get both of you escorts

on

1 the way out. Thank you all.

2 CHAIRMAN BAY: A big thanks to our panelists and
3 to Staff for this very, very informative and helpful
4 conference. Thank you.

5 (Whereupon, at 4:24 p.m., the conference was
6 adjourned.)

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This is to certify that the attached proceeding
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Matter of:

Name of Proceeding: Competitive Transmission
Development Technical Conference

Docket No.: AD16-18-0000
Place: Washington, D.C.
Date: Tuesday, June 28, 2016

were held as herein appears, and that this is the original
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