

FERC Order 1000 Discussion at the 2nd Quarter SERTP Meeting on June 27, 2012

Andrew Taylor, of Southern Company Transmission, on behalf of the SERTP sponsors, provided a presentation regarding the SERTP Sponsor's revised strawman for complying with certain of Order No. 1000's requirements. This presentation followed the power point slide program entitled "Presentation – 2012 SERTP 2nd Quarter Meeting" that is posted on the SERTP website. As such, much of the discussion that tracked the slides in that presentation is not reproduced below, but can be found on the SERTP website.¹

FERC Order 1000 Regional Requirements

- Requirement in Order 1000-A to establish an enrollment process for joining the SERTP
- Information necessary for merchant developers to provide to transmission providers
 - Valerie Martin (FERC) asked whether merchant developer information would be provided to stakeholders.
 - Response: Yes.
- Consideration of Transmission Needs driven by Public Policy
 - Valerie Martin (FERC) asked if these are local or regional projects.
 - Response: This step only involves identifying transmission needs. But any regional project can be proposed for regional cost allocation; we don't distinguish between public policy projects or otherwise in that regard. If it is a more efficient or cost effective project to meet the region's needs, we will consider that.
 - Sharon Segner (LS Power): Is there an order in which you will evaluate the projects (e.g., reliability, then public policy, etc.)?
 - Response: We identify transmission needs driven by customer obligations, some of which may be public policy considerations, others are driven by a duty to serve, etc. We look for other, more cost effective or efficient solutions. There is no order that these different needs are addressed; they are all addressed at the same time.
 - Sharon Segner (LS Power): Are there two separate processes, one for planning local projects and one for regional projects?
 - Response: The process that is being established seeks ways that we can coordinate with each other, stakeholders, and other transmission providers to see if there are more efficient regional projects out there that may meet the underlying needs.
 - Sharon Segner (LS Power): The Order says that the planning process cannot be different for incumbents and non-incumbents (in regards to the identification of transmission solutions to address transmission needs driven by Public Policy Requirements).
 - Response: In accordance with the Order, we're providing a means by which public policy transmission needs may be identified by stakeholders and evaluated. However, stakeholders and transmission developers all have the opportunity to

¹ This document represents a good faith effort to accurately capture the major themes of the discussions that occurred at this meeting (although, again, it does not repeat the portions of those discussions that simply followed the power point presentation). Importantly, this document should not be considered to be in the nature of an official transcript.

- propose regional solutions to meet those needs more efficiently and cost effectively (as described elsewhere in the strawman).
- Regional Cost Allocation Process - Transmission Developer Qualification Criteria
 - Valerie Martin (FERC): how can a new entrant satisfy the similar or larger complexity in scope requirement for purposes of the technical qualification criteria?
 - Response: See slide 20 – experience can refer to a parent or affiliate and any other relevant experience.
 - Sharon Segner (LS Power): We generally think that the qualification criteria works, but would recommend two considerations: First, including "contracting ability" as possible supporting experience with respect to the technical expertise criteria. This is consistent with the hydroelectric industry and gas pipeline industry regulations which include contracting capability in the technical qualification criteria. Second, possibly rewording the “list of NERC and/or other industry registrations” to a “disclosure of any findings of NERC violations” because Order 1000-A says that NERC registrations cannot be qualification criteria.
 - Response: With regard to the NERC and other industry registration lists – all we are looking for is how an entity has operated previously in the development of transmission projects. As for contracting capability, we have expanded this requirement to include parent companies, affiliates, and other relevant experience, so if an entity has relevant contracting experience, we encourage them to include that information as well.
 - Sharon Segner (LS Power): How would these criteria be utilized?
 - Response: We want to know who the developer is, what their relevant experience is, and that they have exercised due diligence before proposing to develop a regional transmission project.
 - Sharon Segner (LS Power): What's the purpose of requiring the explanation of an approach to obtain regulatory approvals and ROW? This should be an information requirement rather than transmission developer qualification criteria. If there is an inference that an entity would have to prove they can obtain state approvals, this may go against the language of the order.
 - Response: We are trying to keep this as open as possible, so we don't want to constrain proposals with qualification criteria. On the other hand, we need to make sure people proposing projects have done the necessary background work and know the path they will take. We are looking for an explanation of how the transmission developer plans to get the project developed.
 - Criteria for a project to be considered for selection in a regional expansion plan for CAP
 - Valerie Martin (FERC): If a project goes through the process and it proves to be a little less than 100 miles in length, would that be ok?
 - Response: If there is a project that is regional, but does not quite meet the criteria (e.g., 95 mile line), it could also be considered.
 - Sharon Segner (LS Power): Does not think the voltage requirement or mileage requirement is supported by the order. Regional projects are those where there is cost allocation.

- Response: The Order is trying to identify facilities that may meet the region's needs more efficiently and cost effectively, so we have outlined criteria that fit the needs of this region.
- Submittal Enclosures / Supporting Documentation
 - Valerie Martin (FERC): How do you evaluate if a project is more efficient?
 - Response: We've tried to establish and outline a process that takes the principles from Order 1000 and applies them to try to identify projects that more effectively and efficiently meet the region's needs.
 - Valerie Martin (FERC): What is the price of the administrative fee and is there any supporting data?
 - Response: The administrative fee is a component of the Strawman that is still being evaluated. There is not currently a proposed fee amount.
- Evaluation of proposals for selection in the regional transmission plan for CAP
 - Valerie Martin (FERC): Please explain what is meant by no Sponsor having "increased, unmitigated transmission costs?"
 - Response: We changed the previous strawman, which included the phrase "adversely impact an individual sponsor." The current language is meant to track the principle that an entity should not be allocated costs for which it receives no benefit. We want to make sure that no individual entity incurs costs for which it receives no benefits. We are talking about proposed regional projects creating other projects "downstream." If there is an added cost to an entity that does not benefit, they should be made whole.
 - Valerie Martin (FERC): So if the developer agrees to pay those costs, then the project would be ok.
 - Response: Yes, it should.
- Inclusion in the Regional Plan prior to selection for CAP
 - Sharon Segner (LS Power): Would the SERTP Sponsors have a veto right to the selection for CAP?
 - Response: We have to make sure that the Sponsors agree that the proposed projects actually meet transmission needs.
 - Sharon Segner (LS Power): Why would anyone ever vote to remove their project from the plan (to be replaced by CAP project)?
 - Response: Sponsors have duties to serve at the lowest practicable costs, so if a project is proposed that is more efficient and cost effective, they would have a great incentive to include it in the plan in lieu of other projects considered.
 - Sharon Segner (LS Power): How would independence be established?
 - Response: We have duty to serve on a least-cost basis.
 - Sharon Segner (LS Power): How long will proposed projects be subject to reevaluation?
 - Response: Until lines are in service, we continue to look at them.
 - Sharon Segner (LS Power): Is that what occurs today?
 - Response: Yes.
- Memorandum of Understanding ("MOU")
 - Sharon Segner (LS Power): You initially discussed the Sponsors providing the cost-estimates for initial evaluation purposes.

- Response: What we are talking about here is the transmission developer providing the more detailed financial terms to give everyone a better understanding of what is being included and what would have to be cost allocated.
- Sharon Segner (LS Power): So, you are now putting the more detailed package together. Would the prices be fixed or would that issue be decided on a case-by-case basis?
- Response: As far as cost containment, that will be outlined in the contract discussion. Cost allocation refers to how the costs are split among the benefitting sponsors. The contracts deal with cost recovery, which is separate from the cost allocation itself. Allocation is how the costs are split among the beneficiaries. How much the contract ends up costing and costs for performance problems are addressed in the contracts themselves, which deals with cost recovery, not cost allocation (which has already been done).
- Blair Fink (Georgia Public Service Commission): But couldn't there be all sorts of reliability benefits? Regions could view benefits differently and there could be a lot of negotiation.
- Response: The beneficiaries are determined by the proposed displacement analysis.
- Blair Fink (Georgia Public Service Commission): So no costs are allocated for reliability?
- Response: Transmission planning is not project-centric but is a needs driven process with reliability probably being the biggest need. This process is dynamic and always trying to identify the best projects. To the extent that a proposal can do so better than what is currently in the plan, then the proposal would displace projects in the plan. The ratio of those who would have cost savings from this better proposal is the basis for the proposed cost allocation.
- Blair Fink (Georgia Public Service Commission): What if it is an EPA-driven need?
- Response: The issue would be whether the EPA requirement drives a transmission service need or not. Transmission service requirements are what we are building projects for. Ultimately, there is some sort of delivery service driving the need for a project.
- Sharon Segner (LS Power): What if someone proposed a reliability project? Is there a method for cost recovery if someone proposed a reliability project and does the 1.25 ratio apply?
- Response: We don't differentiate between certain types of projects to be considered for inclusion in the regional transmission plan for CAP. You either have a transmission need or you don't. Category of project does not matter to this analysis. The benefit to cost ratio applies to any type of project proposed because proposed projects would have to meet transmission needs, just as the projects currently in the plan address those needs. The 1.25 ratio is drawn from Order 1000 itself.
- Selection in the transmission plan for CAP
 - Valerie Martin (FERC): Is the SERTP planning on posting a *pro forma* MOU?
 - Response: The MOU is a nonbinding agreement to outline communication responsibilities and anticipated schedules. It describes how the parties will go

forward, including evaluation and reevaluation of the projects. A lot of aspects of the MOU will be driven by the specific aspects of the project itself. We don't envision a *pro forma* MOU.

- Valerie Martin (FERC): So, would the contract be used to acquire approvals? If a project doesn't get approvals, it won't be in the plan?
- Response: Correct, if a project cannot obtain required approvals, it is not in the plan. To clarify, if a project passes the initial evaluation screens it is in the plan, but it is not selected for regional cost allocation purposes until the contractual arrangement is approved by the affected State Commissions and/or governance authorities. As with the current planning process, first you identify a project that meets a transmission need. You continue to reassess the need, and if the need goes away, you don't build the project. Once you get close to the time to build, you would take the project to the relevant governance authorities (in Southern's case, the state PSCs). We are not going to be able to accept paying for a project if governance authorities will not allow us to recover the project's costs. To put the foregoing in Order 1000 terminology, a regional project would be "included in the regional transmission plan for informational purposes" before receiving governance approvals. Once it obtains the governance approvals, it would be "selected in the regional transmission plan for CAP."
- Sharon Segner (LS Power): From a developer's standpoint, there will not be abandonment recovery until approved by the states?
- Response: These will all be terms of the contract. Southern does not generally get cost recovery until a line/project is placed in service.
- Questions and comments can be submitted at any time on the SERTP website. However, if you have written comments specific to this meeting, please submit those by July 13, 2012.
- Sharon Segner (LS Power): We plan on submitting written comments as we still view there are two processes going on for regional projects.