

## October 17, 2012 SERTP Stakeholders Interim Meeting

The SERTP Sponsors provided a presentation regarding the expansion of the SERTP and their proposed compliance with Order No. 1000 and Order No. 1000-A. This presentation followed the power point slide program entitled “Presentation – SERTP Stakeholders' Meeting on Order 1000” 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 the substance of those discussions is contained in that presentation that is available at the SERTP website.<sup>1</sup> The SERTP Sponsors endeavor to post their updated proposals for complying with certain of Order No. 1000's requirements on the SERTP website in advance of their stakeholder meetings in an effort to obtain as much feedback as reasonably feasible. Meetings such as the October 17, 2012 interim meeting are an avenue for stakeholders to offer comments, but there are others. Interested parties can submit comments through the SERTP website.

### **I. SERTP/Companies Overview**

- Jimmy Glotfelty (Clean Line) – Have all of the companies (current SERTP Sponsors) formally agreed to join the region?
  - John Lucas (Southern) – Yes. However, if FERC changes the compliance filings in ways unacceptable to non-jurisdictional parties, those parties may choose to withdraw.
- Sharon Segner (LS Power) – Will there also be governance documents with the filing?
  - Julia York (Southern) – The utilities subject to FERC jurisdiction will be making their compliance filings, which will lay out the structure of the SERTP activities. We are still thinking internally about what other documents may need to be created.
- Each SERTP Sponsor provided a brief overview of its company.

### **II. FERC Order No. 1000**

- Order No. 890 Overview
  - Nine planning principles
- Order No. 1000 Planning Requirements
- Order No. 1000 Cost Allocation Requirements
  - We are only talking about regional compliance today. Interregional requirements will be addressed at some point in the future
- Six Cost Allocation Principles

### **III. SERTP October 17 Proposal**

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<sup>1</sup> 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.

- Andrew Taylor (Southern) – Provided an overview of the proposal for the consideration of transmission needs driven by public policy requirements (“PPR”).
  - Frank Rambo (Southern Environmental Law Center) – Will PPRs only be addressed at the Annual Summit?
    - Andrew Taylor (Southern) – At the annual summit, we address the transmission plan. By definition, that plan would have to address all transmission needs driven by public policy requirements. If a stakeholder has feedback, they can give it at or after that time.
  - Frank Rambo – It seems like it would help if the feedback for the PPR needs is addressed at the annual summit.
    - Andrew Taylor(Southern) – We typically don’t assign specific needs to specific projects (there are no “public policy lines”), but if a need is not being addressed, Stakeholders can bring that up.
    - Doug McLaughlin (Southern) – There are hundreds or even thousands of PPRs, and it wouldn’t be practical to identify which lines address which PPRs. However, if a new PPR arises, it may be explicitly addressed at the SERTP Planning Summit.
  - Julia Prochnik (NRDC)– Are there three or four high level PPRs? It would be helpful if there was a public policy checklist that the region goes through each year. We would like to have a list of criteria. For example, consideration of future environmental policy requirements (hypothetical).
    - Andrew Taylor – We have a process in place for theoretical studies (economic planning studies). To the extent public policy drives resource decisions, those decisions are made by the LSEs. We then plan the transmission system based upon those firm commitments and input we receive from them.
    - Doug McLaughlin – The reason for the beginning of the cycle input from stakeholders is that we want to consider Stakeholder concerns in the assumptions for the planning process. Stakeholder input regarding transmission needs driven by PPRs can be provided by a stakeholder at any time, it may just not make it into the assumptions for the current planning cycle if provided during other times of the year. In the planning process, we are looking at the delivery service needs driven by the PPRs. We are looking to provide firm delivery service for the needs of the LSEs and firm transmission customers in the region.
    - Andrew Taylor – Stakeholders can provide input on this at any time (not just at the SERTP quarterly meetings), it just needs to be given in time to be included in the planning assumptions.
  - Sharon Segner (LS Power) – Are reliability and economic projects part of the regional planning process?



- John Lucas (Southern) – As a general rule, this group would prefer not to look at a DC line as a long generator lead line. We would prefer to get this data, and analyze it going forward until there is an interchange type contract between the merchant and the interconnecting utility. There will not be a separate section in the tariff for HVDC (it is also not part of Order No. 1000).
- Purpose of Enrollment
  - You would be eligible to be assigned cost allocation for regional projects included in the plan for CAP.
- General eligibility for enrollment
  - Jimmy Glotfelty – What about non-CAP lines? What if they want to go through the regional planning process but not be cost allocated, how will that be included in the process?
    - Andrew Taylor – You can have projects evaluated in the regional process without enrolling if you don't seek cost allocation. We can certainly look at other projects in the regional process.
- Julia Prochnik – Has SERTP decided what type of organization it wants to be (501(c), etc.)?
  - John Lucas – No, SERTP does not have any plan to become a 501-type or other type entity. This is a voluntary process and not a legal entity. There may be future arrangements between the Sponsors regarding cost sharing, etc. Those types of things will not be FERC-jurisdictional. The SERTP process will be contained in the Attachment Ks.
- Julia Prochnik – What type of agreement is between those who join the region?
  - Enrollment is not a membership kind of issue (there are no “membership dues”).
- Julia Prochnik – Is there going to be some sort of board or governance authority? Would there be an advisory group?
  - John Lucas – That is the opportunity afforded to SERTP stakeholders. Southern, for example, currently has an “RPSG” stakeholder committee that represents several industry sectors pursuant to the Order No. 890 requirements, so stakeholders can provide input.
- Julia Prochnik – How is the SERTP defined?
  - John Lucas – It's the geography of the footprint of the Sponsors. The footprint we put in the earlier slide is the “region.” It will interface with the other regions
- Sharon Segner (LS Power) – We see it as critical that it be very clear that the processes established are not discriminatory. Within a governance structure, a lot of those things will be addressed. We want it clearly established somewhere that how this process is governed is not unduly discriminatory.

- John Lucas – The tariff(s) contain the requirement that we are not discriminatory in how we choose a project for CAP. Feedback will all be open and transparent. The plan has to be public, FERC will be observing. That is the forum you can use if you think your project proposal was discriminated against. It would not manifest in any governance structure of the Sponsors, but would only be in treatment of the proposals.
- Sharon Segner – At the end of the day, there are several ways to address the issue, but one way or another it needs to be addressed. There is a difference between transparency and non-discrimination, and we feel the process needs to be both.
- John Lucas on Slide 18 (Order No. 890)
  - With regard to several of the issues previously raised, currently, under 890, we satisfy the nine existing planning principles. We had to file this with FERC, who determined they were open, transparent, and not discriminatory. Order No. 1000 requires us to apply 7 of those again to the region. We are not starting from scratch. We are building on Order No. 890 process pursuant to Order No. 1000.
- Tim Lyons (Ownesboro) – If you are not enrolled, and others take the cost of the project, you will still pay a higher cost for service on the system of the “others” because their tariff will roll in those costs, correct?
  - John Lucas – That’s correct and that issue will be discussed later in the presentation

### **Transmission Developer Qualification Criteria**

- Keith Daniel (GTC) – Provided an overview of qualification criteria applicable to a transmission developer to be able to propose regional projects for “CAP”.
  - Jimmy Glotfelty (Clean Line) What does demonstrated capability to finance mean? Clean Line’s balance sheet has no revenue.
    - You can demonstrate with past projects you financed for example.
    - John Lucas – As a pure merchant, not seeking cost allocation, this has no bearing on you at all. If you are seeking cost allocation, the Sponsors want some assurance that you can obtain financing. We left it vague because there are a lot of different ways to make the showing. However, if the Sponsors are going to step aside and not build projects needed because they are relying on the nonincumbent, they want assurance that the nonincumbent can actually get it done reliably.
  - Sharon Segner (LS Power) – You might consider looking at PJM’s language on the financial qualifications. If a developer could provide letters from the financing community that they would be willing to finance the project if it selected, PJM thinks that is adequate. Sharon objects to this language because tying this to a credit rating does not give you any insight into their financing capability and may arbitrarily

discriminate against special purpose entities and others. They like that it says “US energy projects” rather than just transmission projects.

- Keith Daniel (GTC) - We will take that under consideration.
- Technical Expertise – A change from previous drafts is that now we want to see NERC and/or Regional Entity reliability standard violations. This change was made pursuant to stakeholder feedback.
  - Sharon Segner – Has there been discussion about including the parent/affiliate language in the financial criteria section?
    - Keith Daniel (GTC) – We’ll consider that as well.

### **Transmission Facility Qualification Criteria**

- Keith Daniel (GTC) – Provided an overview of qualification criteria applicable to a regional facility proposed for “CAP”.
- Julia Prochnik (NRDC) – it seems like a lot of entities in the room have a large portion of their system under 300 kV, so why isn’t it 200 kV and above?
  - Keith Daniels (GTC) – The above 300 kV is a good voltage standard for bulk transfers and shipping power to different areas. With regard to the 230 kV system, there is a lot of distribution built off of that. In contrast, we’re focusing on regional projects. In a region of this size, these criteria convey the appropriate scale for supporting bulk transfers and providing tangible regional efficiencies.
- Sharon Segner – What are you looking for in the requirement for “ability to be constructed and interconnected by recommended in service date”?
  - It would be part of the submission the proposer provides
- Sharon Segner – LS Power thinks Order No. 1000 is clear that what makes a regional project rather than local project is cost allocation, not about the length, voltage, or balancing authorities. Paragraph 63 defines it about cost allocation. They think these efforts to define regional are inconsistent with the Order.
  - Keith Daniels – We understand your position and respectfully disagree.
- Sharon Segner – With respect to “materially different than projects already considered,” LS Power is concerned about “line drawing” and the lack of a “baseline.”
  - Keith Daniels – Each year, the SERTP posts expansion plans on the regional planning website.
- Sharon Segener – The concern about the “ability to be constructed and tied into the network by the recommended in-service date” may require some sort of test regarding ability to get regulatory approvals, and such would be inconsistent with Order No. 1000-A.
  - The developer should provide its plan for completing the project by the needed in-service date, explaining how the project can be completed in time especially if the schedule is significantly shorter than typical schedules for similar projects. SERTP is not considering a test regarding the developer’s ability to get regulatory approvals.

## **Submittal – Regional Proposal for CAP**

- Keith Daniel (GTC) – Provided an overview of information to be included in a submittal for a regional facility proposed for “CAP”.
- Fee – A nonrefundable administrative fee of \$25,000 (as suggested by stakeholders) per regional proposal for CAP.
- Deadline for submission – 60 days after the transmission planning summit.
- Sharon Segner – It may be more appropriate to have a tiered process where you are qualified first and then propose later. LS doesn’t object to stringent qualification requirements or the administrative fee. However, LS thinks the qualification process should be bifurcated from the project submission.
  - Keith Daniel (GTC) – We will take that under consideration, however, ultimately, satisfying the transmission developer criteria would be project specific.
- Alan Williford (AMEA) – AMEA is very leery of cost allocation for something applicable for only a subset of customers rather than the whole customer base: having a process whereby lines cross regions, but their costs are only assigned to a subset of customers. AMEA does not like that they are allocated costs for facilities built to serve others (such as lines that only benefit Georgia Power customers and are rolled into the OATT, applicable to all Southern customers). Another example is a set of 10,000 customers who want a line from the Midwest bringing in wind, but the costs of those facilities being rolled into the OATT. We don’t want to be subsidizing other OATT customers.
  - Keith Daniels – That’s why we’re going with the displaced costs approach.

## **Regional CAP Evaluation Timeline**

- Andrew Taylor (Southern) – Provided an overview of the evaluation of a regional proposal for “CAP” from the proposal stage to inclusion in the regional plan for “CAP”
- Jimmy Glotfelty (Clean Line) – Are you confident that you will be able to evaluate proposals within the year?
  - Andrew Taylor – Yes, we want to look at all of these ideas en mass in the planning process to ensure the efficiency and cost effectiveness of the plan. Inclusion in a regional plan for a regional proposal for CAP, however, may span longer than a single planning cycle as shown in the timeline
- Julia Prochnik – Is the box under 4<sup>th</sup> quarter meeting the regional plan?
  - Andrew Taylor – Not necessarily, this chart is a flow of the evaluation process for regional proposals for “CAP”
- Julia Prochnik – Is there an annual process that produces a plan?
  - Andrew Taylor – There is an annual process that produces a plan, which is presented at the 4<sup>th</sup> quarter meeting. Initially, we proposed including projects in the regional plan for informational purposes only at the 4<sup>th</sup> quarter meeting. FERC Staff suggested altering this approach, so that projects aren’t included in the plan until they are

approved for CAP. Under the current process, in March models are made available and then a preliminary expansion plan is discussed in June. It is continuously evaluated for the rest of the year (and other proposals are considered) so that ten-year expansion plans are created by the December Summit.

- Julia Prochnik – What about non-transmission alternatives (DSM, for example) – even though they cannot be proposed for regional cost allocation?
  - Andrew Taylor – Stakeholders can already submit recommendations for these types of projects at any time during the process and they will be considered.
- Sharon Segner – Because CAP projects displace projects in the regional plan, conceivably, projects already in the plan that may be displaced may be going through the permitting process. If you are competing with projects in the permitting process, how will this work practically and is this a level playing field? At what point is a displaced project removed from the regional plan, and what is done with those sunk costs?
  - Andrew Taylor – Sunk costs may affect the calculation of avoided costs
  - Doug McLaughlin– You always consider sunk costs when a new project arises to see if it makes more sense to forego the project you have already started. Practically, it is unusual for a project that is not needed very soon to have accrued significant costs. It should be noted that this will be a collaborative process, not an adversarial one. The premise of the order is to identify regional efficiencies which may reduce costs to customers. Even though you perform comprehensive analysis within your footprint, there could be innovative regional options that may reduce costs for your customers. We want to pursue projects which enhance reliability and reduce costs for our customers. If a developer brings a project that will save costs, it will be a team effort to get it built. There are a lot of additional checks and balances on the proposals. If there is a lot of promise in the project, the states will be there looking at it. Our stakeholders will be looking at it, The Commission will be looking at it. We are not looking for ways to get out of projects that reduce costs and bring reliability benefits. Planning is a collaborative process, not a competition. We are planning to meet delivery service obligations, and we do so with transmission projects. It is a continuous, ongoing process whereby we are constantly looking for more economic options. Projects submitted for CAP will be assessed in the same way as other project options. If the need goes away, we will drop whatever projects no longer make sense, whether CAP or otherwise.
- Sharon Segner – But what’s in the baseline?
  - Doug McLaughlin – I wouldn’t use “baseline.” We have a duty to meet our service obligations. Compare our preliminary expansion plan that is released in June versus the final expansion plan that is released in

December. A lot of projects have dropped out. It will be the same here – a continuous process of matching transmission service needs to the most economic expansion options.

- James Manning (NCEMC) – Are all projects in the plan currently subject to being displaced or only those projects that are regional in nature subject to being replaced?
  - Andrew Taylor – All projects are subject to being displaced.
- James Manning – At what point on the calendar (slide 40) would projects be taken out?
  - Andrew Taylor – Projects can be displaced throughout the planning cycle as needs change.
- Sharon Segner – Is there an estimated timeline for regulatory/governance approvals?
  - Andrew Taylor – It depends on the entity that approves it (with 12 states and several non-jurisdictional potential beneficiaries, it depends on what states and governing bodies for the non-jurisdictionals need), so it is hard to give a specific timeline.
- Sharon Segner – At what point would it be deemed approved by regulatory authorities?
  - Andrew Taylor – Approval here relates to acceptance from regulatory and governance authorities of their projected cost allocation if the project is built. This is not about obtaining regulatory permits or right of ways needed to construct the project. For Southern, we would want the states on board to pursue a regional project in lieu of alternatives that have been identified to meet our duty to serve.
- Sharon Segner – All development is local, but the question relates more to the timeline. Presumably, when a project is in the plan, costs are being accrued as it moves forward. What sort of orders are you looking for, because once they are included in the plan, money will start being spent?
  - Andrew Taylor – In the January timeframe, we are looking for the transmission developer to give its thoughts on getting the project from proposal to construction.
  - Rob Wiley (GTC) – For a transmission planning process, you have big-ticket items that occur within the four quarters. Models are built, then solutions are identified to meet needs identified. This is not a project specific evaluation, but a need-based evaluation. You are not married to particular projects unless those projects are in the ground. Flexibility needs to not only lie with the transmission provider, but also with the proposer of new projects. Their proposals will be subject to the same ongoing evaluation as TP's projects. We don't get married to a project until we've gone past a point of no return.
- John Lucas provided a follow-up summary on the CAP evaluation timeline (slide 40)
  - Regional Proposal for CAP – There will be some mechanism for submitting it, it won't be a mystery.

- Evaluation utilizing planning level estimates – The planners will consider that in the regional planning process, which begins with the rolled-up plans.
- Establish project specific schedule for selection in a regional plan for CAP – if a project looks good after the above analysis, information gets exchanged between the Sponsors and the proposer. At this point, the proposer can “get serious” about their project. Information will be given to the proposer including where the project needs to be located, what specifications it must meet, things that will be included in an agreement in the future about the project.
- More detailed financial data and terms – Using those specifications, the proposer comes up with a detailed cost proposal. The Sponsors then evaluate those details and plan out steps for achieving a contract between the developer and the beneficiaries. The contract will cover things like how much a developer will be reimbursed if they spend money and their project does not get approved. It will be similar to PPAs with generators. Credit assurance criteria will also be included.
- Beneficiaries’ regulatory/governance approvals – We don’t know what the approval process will look like for each Sponsor and for each state. We are not sure what that approval looks like in each jurisdiction. The incumbent will be going to the state in association with the nonincumbent to get the project approved
- Jimmy Glotfelty – For merchant projects, how do you determine a need? I’ll want to talk about this in the future.
- Julia Prochnik – This is a voluntary process, correct?
  - John Lucas – it is voluntary until there is a contract in place, just like any other commercial arrangement.
- Julia Prochnik – In other parts of the country, there are entities that have said you can pull out of the process.
  - John Lucas – If we got to a point where the Sponsors had signed a contract with a nonincumbent developer, to the extent you have to walk away, it would be subject to recourse under the contract
- Julia Prochnik – If beneficiaries want to walk away at a later date (*e.g.*, TVA and Southern), how would you handle the replacement contract going forward as between those beneficiaries.
  - Doug McLaughlin (Southern) – We can’t choose not to meet a need. If the Sponsors walk away, something has changed with respect to the underlying need.
  - Rob Wiley – A merchant could not step in to do a project that the Sponsors walked away from because the project is no longer needed (most likely). A third party would have no basis for going forward with the project.
- Julia Prochnik – What if the developer has to go away (such as if the developer went bankrupt), but the need is still there?

- John Lucas – If the need is still there, then the Sponsors would identify who could replace the project to meet that need.

### **Evaluation of Proposals for Selection in a Regional Plan for CAP**

- Julia Prochnik – Who creates planning level cost estimates?
  - Andrew Taylor – We think the SERTP Sponsors will come up with those estimates so there will be an apples to apples comparison.
- Julia Prochnik – So this would be addressed at the first quarter meeting?
  - Andrew Taylor – I’m not completely sure at what point in the process this falls, but it would be addressed in an open and transparent manner.
- Valerie Martin (FERC) – Does 1.25 apply to all projects in this process (economic, reliability, etc.)?
  - Andrew Taylor – Yes
- Ben Crawford (FPSC) – FPSC has some concerns with the 1.25 threshold. The FRCC changed their process to a 1.0 benefit to cost ratio and FPSC would like SERTP to consider that as well.
  - Andrew Taylor (Southern) - We will take that under consideration.

### **Selection in a Regional Plan for CAP**

- Frank Rambo (SELC) – Do you do scenario analysis as part of determining cost/benefits. For example, in the IRP process, there is a scenario analysis that is robust to make sure solutions can address different contingencies?
  - Andrew Taylor – When we do planning, we are talking about getting generation to load in an economic and reliable manner. A lot of the planning criteria build in that “robustness” to make sure they cover future needs. What we try to represent in the expansion plans are the types of needs we see based on the current set of assumptions.
- Jimmy Glotfelty (Clean Line) – What about projects that come out of a generator interconnection process, are they included as well?
  - Andrew Taylor – Yes, all projects are discussed at the planning meetings
- Julia Prochnik – What if the two beneficiaries have different mechanisms for determining displaced costs?
  - Andrew Taylor – It is the responsibility of the TP to see if the proposal meets its needs and to determine the displaced costs.
- Julia Prochnik – Does SERTP serve as the clearinghouse to determine the right methodology?
  - Andrew Taylor – There is no SERTP governing authority that would do that, but everything will be done in an open and transparent manner and everything should be an apples-to-apples comparison.
- Sharon Segner (LS Power) – In the 1.25 ratio, the transmission costs of the sunk costs of projects would be included in the ratio?
  - Andrew – That’s correct.
- Sharon Segner – Would the sunk costs be transparent in the process so potential developers know whether their project will be a good idea? We

- also object to sunk costs being part of the formula because we don't think it is fair to the new entrant. We don't object to these projects being subject to reevaluation in general.
- Andrew Taylor – A lot of the details have not been considered yet, but the goal is to make sure that solutions are more efficient and cost effective to customers. You want to compare the cost for completing a project with sunk costs to the new project proposed to see which one is the more efficient and cost effective approach for customers.
  - Valerie Martin (FERC) – Is the contractual agreement something that will be taken to the jurisdictional entities once signed? Is the project included in the regional plan for informational purposes before receiving governance approvals?
    - John Lucas – Yes, this is what Sponsors will bring to their governing boards or state commissions. There is no longer a place in the process where it is included in the plan “for informational purposes.”
  - John Lucas – Transparency on sunk costs will be given on the “More detailed financial terms” box on slide 40. Sponsors would have to give those costs and that type of thing to the developer so the developer can know the issues it needs to address. There will also be dates of milestones when more costs will have to be incurred. There will be clarity on sunk costs and specific dates and other things nonincumbent will have to do with their project. More discussion internally will be needed in how sunk costs are factored into the benefit/cost ratio.
  - Sharon Segner – Transparency on the sunk cost is important to LS Power. They have concern about submitting the administrative fee without knowing what the sunk costs are.

#### **IV. Implementation Timeline/Next Steps**

- Though comments can be submitted at any time, please submit comments on this presentation by October 31 so they can be considered before the next stakeholders meeting.
- The next meeting will be December 12 at GTC headquarters.
- Tariff language will be posted by December 5.
- Additional comments on tariff language and the December 12 meeting should be submitted by January 4, 2013 in order to be considered before the compliance filing is made.
- Frank Rambo (SELC) – When you said the region will be expanded but had a caveat about FERC, what did that mean?
  - John Lucas – Out of the 10 Sponsors, all but three are not subject to FERC jurisdiction. To the extent FERC requires changes to this regional process that parties cannot accept, they may no longer choose to remain a part of the region.
- Sharon Segner – When you are evaluating costs, will the role of ROE factor into the cost comparison?

- Andrew Taylor – You would have to factor in the total cost of project to project, so you'll have to factor in those costs at the detailed level, not at the initial, high level evaluation. This is something that is being further thought out.

Please provide any written comments regarding this meeting by October 31, 2012.