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BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

- - - - -X
IN THE MATTER OF: :
CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :
CONSENT MISCELLANEOUS ITEMS :
CONSENT MARKETS, TARIFFS AND RATES - GAS :
CONSENT ENERGY PROJECTS - HYDRO :
CONSENT ENERGY PROJECTS - CERTIFICATES :
DISCUSSION ITEMS :
STRUCK ITEMS :
- - - - -X

852ND COMMISSION MEETING
OPEN MEETING

Room 2C
Federal Energy Regulatory
Commission
888 First Street, N.E.
Washington, D.C.

Wednesday, March 3, 2004
10:05 a.m.

1 APPEARANCES:

2 COMMISSIONERS PRESENT:

3 CHAIRMAN PAT WOOD, III, Presiding

4 COMMISSIONER NORA MEAD BROWNELL

5 COMMISSIONER JOSEPH T. KELLIHER

6 COMMISSIONER SUEDEEN G. KELLY

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24 ALSO PRESENT:

25 DAVID L. HOFFMAN, Reporter

P R O C E E D I N G S

(10:05 a.m.)

CHAIRMAN WOOD: Good morning. This open meeting of the Federal Energy Regulatory Commission will come to order to consider the matters which have been posted in accordance with the Government in the Sunshine Act for this time and place.

Before we start, let's pledge to our Flag.

(Pledge of Allegiance recited.)

CHAIRMAN WOOD: Before we start, I wanted to, as we do on occasion, recognize a recently-retired employee who has contributed a lot to the policy and quality of life here at our Commission. That's Rich Armstrong. Rich, I think you're here. There he is.

Rich has been probably close to a quarter century here at the Commission and contributes a lot of important things, the most recent of which was the Gelinas Report, which, as we all know, is probably the Gelinas-Armstrong Report, but he's a good egg and a good friend. We'll miss him and we wish you all the best, Rich. Thanks a lot.

(Applause.)

COMMISSIONER KELLY: I'd like to introduce a new member of my staff, Laura Valas.

(Applause.)

CHAIRMAN WOOD: Madam Secretary?

1 SECRETARY SALAS: Good morning, Mr. Chairman,
2 good morning, Commissioners. The following items have been
3 struck from the agenda since the issuance of the Sunshine
4 Notice on February 25th. They are: E-13, E-18, G-15, H-1,
5 and H-7.

6 Your consent agenda for this morning is as
7 follows: Electric Items - E-4, 7, 9, 11, 12, 15, 16, 19,
8 20, 21, 22, 24, 25, 26, 29, 30, 32, 34, 35, 38, 40, 41, 42,
9 43, 44, 45, 46, 47, 48, 49, and 50.

10 Miscellaneous Items: M-1.

11 Gas Items: G-3, 4, 7, 8, 9, 11, 12, 13, 14, and
12 16.

13 Hydro Items: H-2.

14 Certificates: C-1.

15 Let me note for the record that Commissioner
16 Kelly is not participating in the following items: E-15, E-
17 26, E-35, E-38, E-40, E-42, E-43, E-44, E-45, G-3, and G-13.

18 Chairman Wood is not participating in E-49. The
19 specific votes for some of the consent items are as follows:
20 E-7, Commissioner Kelly dissenting, in part, with a separate
21 statement; E-9, Commissioner Brownell concurring, with a
22 separate statement; and E-30, Commissioner Kelly dissenting,
23 in part, with a separate statement. Commissioner Brownell
24 votes first this morning.

25 COMMISSIONER BROWNELL: Aye, noting my

1 concurrence on E-9.

2 COMMISSIONER KELLIHER: Aye.

3 COMMISSIONER KELLY: Aye, noting my dissent, in
4 part, on E-7 and E-30, and my non-participation in E-15, 26,
5 35, 38, 40, 42, 43, 44, 45; G-3 and G-13.

6 CHAIRMAN WOOD: Aye, noting my recusal in E-49.

7 SECRETARY SALAS: The first item for discussion
8 this morning is A-3. This is a presentation by the
9 Commission's Information Assessment Team. With us this
10 morning to present the item is Ginnie Strasser.

11 CHAIRMAN WOOD: As an intro to Ginnie, I wanted
12 to use this opportunity to put a spotlight on an important
13 activity that she is leading. It's a cross-agency activity
14 that probably is as close to a de-silo'ing exercise as we
15 will have here in the coming years, but it's a law-based
16 review on our information needs and our information
17 collection that we currently do, and attempt to respond
18 thoughtfully to recent JO reports, as well as looking at
19 completing the effort that Ginnie was involved in when I
20 first came to the Commission.

21 Why don't you take it from there, Ginnie?

22 MS. STRASSER: Good morning, Mr. Chairman and
23 Commissioners. I do have a PowerPoint presentation, but I'm
24 not sure -- oh, you do have it, okay. Thank you.

25 (Slide.)

1 MS. STRASSER: I am pleased to be here this
2 morning to explain what this team effort is about. On
3 January 12th of this year, Chairman Wood asked me to lead an
4 interoffice team with the purpose of assessing what
5 information the Commission needs in order to understand and
6 oversee energy markets with a particular emphasis on
7 ensuring market transparency.

8 By the way of background, in the past, the
9 Commission surveyed its information needs on an ad hoc
10 basis, and as Chairman Wood said, two years ago, I was
11 involved in what was the last effort in doing that. Since
12 then, the Office of Market Oversight and Investigation has
13 been created and has been working its magic in gathering
14 information from various sources.

15 (Slide.)

16 MS. STRASSER: The purpose of this team is to
17 advance the ball a bit further and to make sure that we
18 understand that as the markets we regulate evolve, what
19 information needs the Commission has.

20 (Slide.)

21 MS. STRASSER: The Team has identified three
22 goals that are consistent with the most strategic plan of
23 the Commission. We have identified that Objective 2.1 is
24 the objective that most fits with the mission of our team.

25 That is to advance competitive market

1 institutions across the entire country, so for the three
2 goals that we set, for each of them, I'll explain what the
3 goal is and what steps we plan to take and the deliverables
4 we hope to put forward to this Commission at a later date.

5 (Slide.)

6 MS. STRASSER: Goal 1 is to develop new
7 information collections that ensure greater market
8 transparency.

9 (Slide.)

10 MS. STRASSER: To achieve that, we've identified
11 a process that we hope to follow. We will survey FERC
12 Staff, federal and state agencies, and selected industry and
13 trade association representatives.

14 We're anticipating and hoping for everyone's full
15 cooperation in this effort so that we can get the most
16 information and everyone's good ideas.

17 CHAIRMAN WOOD: And I think, you know, that we
18 can provide a little incentive to help.

19 MS. STRASSER: Certainly. And we hope to develop
20 an electronic survey which will make it easier to canvass
21 people and to tabulate the responses and analyze them. As
22 examples of outreach, we will be contacting trade
23 associations such as EEI and EPSA, INGAA. We'll probably
24 talk to NARUC, possibly NERC.

25 We're focusing on the electricity markets at this

1 point, but we may also speak to some of the gas trade
2 associations as well.

3 We will certainly assess the confidentiality and
4 information-sharing concerns of all market participants as
5 we develop the proposal. We're certainly mindful of the
6 fact that much market information and transmission
7 information is viewed as proprietary, and we need to develop
8 a proposal that weighs those concerns with ensuring market
9 transparency.

10 (Slide.)

11 MS. STRASSER: The deliverable will be,
12 hopefully, a draft rulemaking or Order proposing what the
13 new information collections or filing requirements need to
14 be to ensure greater market transparency.

15 As a timeframe, we're hoping to have this
16 proposal by the end of July, before the August break, and
17 depending on how well our effort goes, we may instead find
18 that it's better to make recommendations at that point and
19 propose what rulemakings ought to be drafted after that
20 date, but we will keep you all apprised of our progress.

21 (Slide.)

22 MS. STRASSER: Goal 2 is to develop a proposal to
23 reduce or eliminate some of our current information
24 collections and/or filing requirements. Currently, all
25 agencies are subject to the Paperwork Reduction Act, and the

1 Office of Management and Budget, OMB, is charged with
2 reviewing all agencies' current information collections over
3 a three-year cycle.

4 What we're hoping to do is to improve our
5 internal review process of our current collections, do a bit
6 of housekeeping and cleaning, and, again, be mindful of the
7 fact that the public may rely on information that we as an
8 agency don't see any great utility for keeping. So we need
9 to do public outreach to get people's views on that, as
10 well.

11 (Slide.)

12 MS. STRASSER: So, the process we will follow to
13 achieve Goal 2, is to identify all of the current
14 information collections and filing requirements, then
15 hopefully identify one or a few that are most susceptible to
16 being eliminated or reduced -- we're calling that our hit
17 list -- and to survey both FERC Staff and outside
18 constituents to get their views.

19 We also hope to develop an electronic survey that
20 will facilitate that process. We may look for other ways to
21 reduce the burden on the reporting public, such as changes
22 in formatting of current information or moving towards even
23 greater electronic filing of information, all of which will
24 streamline the process of what we do collect.

25 (Slide.)

1 MS. STRASSER: As a Goal 2 deliverable, we will
2 hopefully come up with a draft rulemaking or order proposing
3 how to reduce or delete certain current information
4 collections, and, again, we are striving for doing that by
5 the end of July.

6 (Slide.)

7 MS. STRASSER: Goal 3, which I think is an
8 important part of this Team's effort, will be to propose an
9 effective process for institutionalizing a continuous
10 Commission-wide review of both our current and new
11 information needs. As I mentioned, there have been many ad
12 hoc teams called to do this process over the last many
13 years, and as our regulatory role is reexamined, as the
14 markets evolve, the need to call teams together persists.

15 (Slide.)

16 MS. STRASSER: Perhaps what's lacking is a
17 process of how to make this an organizational part of what
18 we do, so we are going to try to propose organizational
19 changes that are necessary to implement a plan and to spell
20 out what processes we need to incorporate to achieve that,
21 and to, therefore, be less reactive to OMB's three-year
22 review of our information collections, but to have really
23 thought it through and to coordinate between and among all
24 of our program areas in this effort.

25 (Slide.)

1 MS. STRASSER: So, Goal 3 will be to propose an
2 implementation plan for continuous review, again, hopefully
3 by the end of July. Overall, these three goals are really
4 interdependent, and it is an ambitious effort.

5 I am pleased and honored to be leading this
6 effort. We think that we can model the process of how to
7 formalize an ongoing review cycle, once we've completed our
8 project.

9 (Slide.)

10 MS. STRASSER: The Team members -- and I'd like
11 to name them, if I may, so that when we get phone calls from
12 the public, asking them to interview with us, all will know
13 who we are. In addition to myself, there's Sam Berrios in
14 the Office of the Executive Director; Bill Blome, who is in
15 the General Counsel's Office; Jim Caruso, in the Office of
16 Market Oversight and Investigation; Ed Fowlkes, in the
17 Office of Energy Projects; Andy Hinz, in the Office of the
18 Executive Director; Joe Lynch, in the Office of General
19 Counsel; Mike Miller, who is in the Office of the Executive
20 Director, and Michele Veloso, in the Office of Markets,
21 Tariffs, and Rates.

22 That concludes my comments, and I will take any
23 questions, if you have them.

24 COMMISSIONER BROWNELL: Is it your intent to talk
25 to other agencies who may be collecting similar information

1 in order to a) see if they could be a resource, so we don't
2 have to collect the same information, and, b) to look at
3 formats?

4 We recently had an Order where we thought we were
5 asking for information that was readily available in reports
6 to the SEC and that we were formatting them the same. And,
7 as it turned out, we were not at all.

8 Will you be talking to those agencies?

9 MS. STRASSER: Yes, we will. We have decided
10 that we need to speak to both federal and state agencies,
11 and, certainly, the SEC, possibly the CFTC, the EIA, Energy
12 Information Agency within DOE, and any others that seem to
13 be appropriate, with what you suggest in mind, of not
14 duplicating information.

15 We also want to talk to some agencies to learn
16 best practices. How do they go through a review cycle of
17 what we are suggesting? Is anyone further along on the
18 curve than we are?

19 They may not be those agencies; they may be
20 others that have a similar regulatory and ratemaking
21 function to this Commission.

22 COMMISSIONER BROWNELL: Good. I'm excited about
23 this project, because I know I'm a one-note Sally on the
24 regulatory compulsion to collect masses of information which
25 we don't use.

1 CHAIRMAN WOOD: You're now a four-note Sally.

2 COMMISSIONER BROWNELL: I'd also like to see in
3 the analysis that you do, as you are articulating and
4 identifying the information collection we have or might
5 propose to have, I'd like someone also to tell me who uses
6 it and how they use it, so that I'm sure that we're getting
7 some value for that information and we have a better
8 understanding of that.

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1 MS. STRASSER: We have already gotten pretty far
2 along in developing a comprehensive database on all kinds of
3 collections, and one of many columns it will have will be
4 what office is primarily responsible for that form or
5 collection and then who else uses it in the Agency.

6 We're hoping that one of the benefits of this
7 process will be, with the proper IT resource developed, to
8 make this available within the Agency, perhaps on our
9 Internet site, or possibly, at a later date, even go public
10 with it. We have to decide along the way, what phases of
11 commitment and cost are involved.

12 There's a whole data warehousing side to this
13 that is probably beyond the scope of what we can do in the
14 next six months, but we can certainly propose where the
15 Agency might want to go at a later date in coordinating.

16 One thought that I've thought through, but don't
17 know how you would carry out at this point, is that we
18 really have links to all filed forms in some manner for both
19 the public, if it's public information, and for FERC Staff.

20 At the moment, we don't really have that kind of
21 interconnected access.

22 COMMISSIONER BROWNELL: Good luck.

23 MS. STRASSER: Thank you very much.

24 COMMISSIONER KELLIHER: The General Accounting
25 Office, in the past, has argued that we have some limits on

1 our ability to gather market information. Your deliverables
2 generally are rulemakings or Orders, but there might be a
3 need to suggest some statutory changes.

4 I just wanted to find out how you would go about
5 doing that, if it does turn out in your effort that you
6 think there's some limit on our statutory authority to
7 collect market information. There would be a
8 recommendation, presumably, to the Commission, to that
9 effect, but there's a need to have legislation, so there
10 might be deliverables that are not rulemakings or Orders.

11 MS. STRASSER: We certainly see our mission of
12 identifying what information would be valuable. We're
13 trying to brainstorm without consideration of jurisdictional
14 boundaries, proprietary, confidential concerns, and come up
15 with what's the most appropriate list.

16 But then in making the proposal, we realize there
17 will be such constraints as whether we have the jurisdiction
18 to ask for it, or what the policy and political implications
19 are of asking for it.

20 There are times when policy and information --
21 you can't decide one in a vacuum. They are interdependent,
22 so we may come up to the point where we say, well, you'd
23 have to change policy or you'd have to go back for more
24 statutory authority to go down this path, and that will be a
25 choice for the Commission at that point.

1 COMMISSIONER KELLIHER: Your first cut is, in a
2 perfect world, what information does the need to exercise
3 its statutory duties?

4 MS. STRASSER: That's right, trying to keep it
5 very broad.

6 COMMISSIONER KELLIHER: And to the extent that
7 there is a need for policy change, where we have authority,
8 then we might have a rulemaking, but if there is a need for
9 statutory changes, that would come out in the process of
10 your review, and the Commission would have to --

11 MS. STRASSER: That's our approach at this point.

12 COMMISSIONER KELLIHER: Thank you. Are there any
13 other questions?

14 (No response.)

15 COMMISSIONER BROWNELL: Let's just see if we can
16 have a minimum of a one-for-one match. We eliminate one for
17 every one we add.

18 CHAIRMAN WOOD: OMB's going to want that.

19 MS. STRASSER: I can't promise that.

20 CHAIRMAN WOOD: That's why Goal 2 is in there.
21 Thank you, Ginnie, for your leadership. I want to ask and
22 emphasize, as we have done before to our senior Staff
23 leadership, how critical it is that this timeframe and this
24 chart that Ginnie and her Team have prepared, be supported
25 by everybody in the Agency. All right, thank you.

1 SECRETARY SALAS: The second item for discussion
2 this morning is E-1. This is the Standardization of
3 Generator Interconnection Agreements and Procedures. The
4 presentation is by Roland Wentworth, accompanied by Patrick
5 Rooney, Bruce Poole, Jan McPherson, and Mike Henry.

6 (Slide.)

7 MR. WENTWORTH: Good morning. My name is Roland
8 Wentworth. With me today are Pat Rooney, Jan McPherson,
9 Mike Henry, Bruce Poole, and Shelton Cannon has joined us at
10 the table.

11 Item E-1 is the Order on Rehearing of the Large
12 Generator Interconnection Rule issued on July 24th, 2003, as
13 Order No. 2003. That Order required all public utilities
14 that own, control, or operate facilities used for
15 transmitting electric energy in interstate commerce, to have
16 on file, standard procedures and a standard agreement for
17 interconnecting to their transmission systems.

18 For generating facilities with capacity greater
19 than 20 megawatts, Order No. 2003 requires the public
20 utilities to modify their open access tariff to incorporate
21 the large generator interconnection procedures and large
22 generator interconnection agreement that appeared in the
23 Order.

24 In addition, Order 2003 set forth interconnection
25 pricing rules for the non-independent transmission provider

1 and provided additional pricing flexibility for the
2 independent transmission provider.

3 (Slide.)

4 MR. WENTWORTH: Interconnection plays a crucial
5 role in bringing much needed generation into national energy
6 markets to meet the growing needs of electricity customers.
7 The interconnection process has been fraught with delays and
8 lack of standardization that discourages merchant generators
9 from entering into the energy marketplace, in turn, stifling
10 the growth of competitive energy markets.

11 Consequently, the Commission issued Order 2003 to
12 help to prevent undue discrimination, preserve reliability,
13 increase energy supply, and lower wholesale prices for
14 customers by increasing the number and variety of generating
15 resources competing in wholesale electricity markets, while
16 ensuring that the reliability of the transmission system is
17 protected.

18 Order 2003 required public utilities to implement
19 a single uniform applicable set of procedures and agreements
20 to govern the interconnection process.

21 (Slide.)

22 MR. WENTWORTH: It sets forth clear rules for
23 pricing the transmission enhancements that are needed for
24 the interconnection. The process that has brought us to
25 today's Order has been long, but fruitful.

1 The Commission issued in October of 2001, an
2 Advance Notice of Proposed Rulemaking that initiated a
3 stakeholder negotiation process with the goal of reaching
4 consensus on as many issues as possible. A consensus
5 document was filed by the negotiating teams in January of
6 2002, and the Commission issued a Notice of Proposed
7 Rulemaking in April 2002, that largely incorporated the
8 product of the stakeholder process.

9 The Commission issued Order 2003 on July 24,
10 2003. Many viewpoints were heard throughout the process and
11 many were accommodated in the final rule. For example, the
12 Staff met on several occasions with representatives of wind
13 energy producers, and attempted to address many of their
14 unique concerns in Order No. 2003, and in the Order on
15 Rehearing.

16 (Slide.)

17 MR. WENTWORTH: Today's Order on Rehearing
18 reaffirms the legal and policy conclusions on which Order
19 2003 is based. In response to the requests of those that
20 petitioned for rehearing, the Order provides clarification
21 in many areas and grants rehearing in limited areas.

22 Issues related to pricing and interconnection
23 service options, proved to be the areas of greatest concern.

24 (Slide.)

25 MR. WENTWORTH: The Order on Rehearing largely

1 reaffirms the pricing policy adopted in Order 2003 for non-
2 independent transmission providers, that is, those
3 transmission providers that are not an RTO, ISO, or
4 independent transmission company.

5 The interconnection customer must pay for the
6 interconnection facilities, which are those facilities on
7 the customer side of the point of interconnection and for
8 any required distribution upgrades.

9 Regarding network upgrades, unless the
10 transmission provider and the interconnection customer agree
11 otherwise, the interconnection customer must initially fund
12 the cost of any network upgrades required for its
13 interconnection, and the transmission provider must
14 reimburse that up-front payment with interest.

15 The reimbursement is in the form of credits on a
16 dollar-for-dollar basis against the rates that the
17 interconnection customer pays for the delivery component of
18 transmission service.

19 (Slide.)

20 MR. WENTWORTH: Petitioners raised a variety of
21 concerns regarding the pricing provisions of Order 2003.
22 Some claimed that the pricing policy would require existing
23 customers to subsidize the network upgrades needed to
24 interconnect the new generating facility, especially when
25 the facility's output is so off-system.

1 Others claimed that by providing transmission
2 service credits to the interconnection customer, the
3 customer would have no incentive to make efficient siting
4 decisions.

5 (Slide.)

6 MR. WENTWORTH: Several Petitioners argued that
7 the pricing policy violated the Commission's higher-of
8 ratemaking policy which holds that when the system must be
9 expanded to meet a service request, the transmission
10 provider is entitled to charge the customer, the higher of
11 an average embedded cost rate for the system, as expanded,
12 or an incremental cost rate, but not the sum of the two.

13 (Slide.)

14 MR. WENTWORTH: Although the next slide is
15 impossible to read --

16 (Laughter.)

17 MR. WENTWORTH: -- it demonstrates that the
18 higher-of policy has had a long, but successful history. It
19 was developed in a series of Orders dating to the early
20 1990s, and it has been affirmed by the courts. Its purpose
21 is to provide transmission customers with the means to
22 protect existing customers from rate increases that might
23 otherwise result from new requests for transmission
24 services.

25 Unfortunately, Order No. 2003 did not explicitly

1 reaffirm the Commission's commitment to the policy of
2 higher-of pricing. That led a number of Petitioners to
3 question whether existing customers would, indeed, be
4 protected under the terms of the interconnection pricing
5 policy.

6 (Slide.)

7 MR. WENTWORTH: In response to Petitioners'
8 concerns about pricing, the Order on Rehearing, first,
9 strongly emphasizes that consistent with the Commission's
10 higher-of ratemaking policy, a non-independent transmission
11 provider continues to have the option to charge the
12 interconnection customer the higher of an average embedded
13 cost rate or an incremental cost rate for the network
14 upgrades.

15 The Order further clarifies that the requirement
16 for an up-front payment in crediting for network upgrades,
17 is simply a financing provision designed to facilitate the
18 construction of the network upgrades and to place the
19 interconnection customer at some risk for the costs of the
20 network upgrades.

21 (Slide.)

22 MR. WENTWORTH: Nevertheless, the Order grants
23 rehearing on two aspects of the Order 2003 pricing policy.
24 Order 2003 provided that credits would be given for
25 transmission services taken anywhere on the transmission

1 system and any balance of up-front payment outstanding after
2 five years was to be returned to the customer as a lump sum
3 payment with interest.

4 However, in the Order on Rehearing, the
5 Commission concludes that these features reduce the
6 incentive that the interconnection customer has to make
7 efficient siting decisions. In addition, the expose
8 existing customers to the possibility that they may end up
9 bearing the cost of network upgrades in the event that the
10 generating facility takes little transmission service or is
11 retired prematurely.

12 (Slide.)

13 MR. WENTWORTH: Therefore, changes are made as
14 follows: First, the Order revises the crediting provisions
15 to require the transmission provider to provide credits to
16 the interconnection customer, only against transmission
17 delivery service taken with respect to the interconnecting
18 generating facility.

19 The transmission provider need not provide
20 credits against other transmission services. Second, the
21 Order gives the transmission provider two options regarding
22 the payment of credits: At the end of five years from
23 commercial operation date of the generating facility, the
24 transmission provider may either, number one, reimburse the
25 interconnection customer for the remaining balance of its

1 up-front payment, plus interest; or, two, continue to
2 provide credits to the interconnection customer until the
3 total of all credits equals the interconnection customer's
4 up-front payment, plus interest.

5 Similar changes apply when network upgrades must
6 be constructed on affected systems, which are the
7 neighboring transmission systems that must also construct
8 network upgrades to accommodate some interconnections.

9 In summary, these modifications further help to
10 ensure that the transmission provider can recover the higher
11 of the incremental costs of the network upgrades, or the
12 embedded cost transmission rate, which, in turn, ensures
13 that existing customers of the transmission provider and the
14 affected system will not subsidize network upgrades required
15 to interconnect merchant generation.

16 (Slide.)

17 MR. WENTWORTH: We reaffirm the decision in Order
18 2003 to have the transmission provider offer both energy
19 resource interconnection service and network resource
20 interconnection service. Energy resource interconnection
21 service is a basic service, but which, by itself, provides
22 access to existing transmission capacity only on an as-
23 available basis.

24 Network resource interconnection service is a
25 more comprehensive interconnection service that allows the

1 generating facility to be designated by a network customer
2 as a network resource.

3 (Slide.)

4 MR. WENTWORTH: On rehearing, Petitioners claimed
5 that both services improperly include transmission delivery
6 service, that neither option meets the needs of traditional
7 network customers, and that the requirements for network
8 resource interconnection services are unclear.

9 Some transmission providers claim that network
10 resource interconnection service does not allow them to
11 perform additional studies or construct additional upgrades,
12 if necessary to meet the interconnection customer's future
13 delivery service requests.

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1 (Slide.)

2 MR. WENTWORTH: The Order on Rehearing fully
3 explains these services. First, neither energy resource
4 interconnection nor network resource interconnection service
5 guarantees delivery service. Although these services both
6 provide the interconnection customer with the capability to
7 deliver the output of the generating facility into the
8 transmission system at the point of interconnection, neither
9 service provides the interconnection customer with a right
10 to withdraw power at any particular point of delivery.

11 However, the Order emphasizes that all customers,
12 including network customers, retain all of the options they
13 now have to tailor a combination interconnection and
14 delivery services to their particular needs. With specific
15 regard to network resource interconnection service, the
16 Order makes clear that the transmission provider is not
17 limited in the number of type of studies it may do for
18 future delivery service or in the network upgrades that it
19 may construct.

20 (Slide.)

21 MR. WENTWORTH: With regard to an independent
22 transmission provider, the Order on Rehearing continues to
23 allow such an entity to propose a customized pricing policy
24 to fit its circumstances.

25 (Slide.)

1 MR. WENTWORTH: Finally, to comply with the Order
2 on Rehearing, public utilities must file amendments to their
3 open access transmission tariffs within 30 days from the
4 date of publication in the Federal Register. I'll be happy
5 to take any questions.

6 COMMISSIONER BROWNELL: There is much to like in
7 this Order and I appreciate the work of the team. This is a
8 very comprehensive and detailed set of rules. Was there a
9 consensus, Roland, around the consideration of the pricing
10 policy? Did the generators agree that this was a good
11 option?

12 MR. WENTWORTH: Actually, on rehearing, we heard
13 very little from the generators. I believe, for the most
14 part, they were very pleased with Order 2003, and to the
15 extent that they petitioned for rehearing, it was really on
16 rather peripheral issues. I think they were generally
17 satisfied.

18 COMMISSIONER BROWNELL: I hope the clarity of
19 this brings the benefits that we anticipate, and that we can
20 begin to see the end of discriminatory practices that I
21 think have really harmed customers in the long run. This
22 clearly protects the native load customers. I hope it
23 doesn't put an excessive burden on the generation community
24 to bear unnecessary risks.

25 I hope we can get to an honest analysis in all

1 markets, of who benefits and when, so, I think the clarity,
2 in and of itself, is a good thing. I think the fact that we
3 have addressed the needs of the wind community is important,
4 because that's an important resource in so many parts of the
5 country that is underdeveloped.

6 I look forward to seeing rational decisions being
7 made. I don't actually agree that siting decisions were
8 driven by a pricing policy. I think there were other things
9 that drove it, including, I think, the solicitation by some
10 states, counties, and cities who recruited generators to
11 site in what turned out to be uneconomic sites.

12 So I don't want to overly rely on the fact that
13 this, in and of itself, solves siting issues. I think we'll
14 have some flurry in the generation community, will we not?
15 They won't be persuaded by things other than economics in
16 the future, but, congratulations, you did a good job.

17 COMMISSIONER KELLIHER: I also want to commend
18 the Staff for this effort. It was an effort to read, and
19 I'm sure it was an effort to write.

20 (Laughter.)

21 COMMISSIONER KELLIHER: I was hoping this would
22 come out right before I got here.

23 (Laughter.)

24 COMMISSIONER KELLIHER: I still want to say that
25 I do support the changes to the crediting policy and the

1 pricing policy, and I do think it will protect native load
2 customers of transmission providers from the prospect of
3 subsidizing network upgrades, as well as encourage efficient
4 siting decisions. I support the Order.

5 COMMISSIONER KELLY: I'm happy to sign onto this
6 proposed Order. I thank you all for your hard work. I've
7 learned a lot as well, in reading everything you've sent us.
8 Thanks.

9 CHAIRMAN WOOD: In the years since I was here the
10 first time, on the natural gas side, the Commission, in the
11 '90s, adopted a relatively clear policy on how incremental
12 and embedded pricing would work. That has resulted in
13 actually a lot of expansion as the markets required, and
14 timely expansion of the interstate gas grid.

15 That policy, quite frankly, was one I loved, way
16 back when I was working here back in the early '90s, but
17 it's one that I think, you look empirically at what works.
18 We look now at this industry in the sequence of progress and
19 it is behind where the gas industry is as far as taking care
20 of a more seamless transportation network.

21 But this policy -- and I think that the rehearing
22 petitions did bring that in -- it became, quite frankly, the
23 two-year battle we've had over participant funding and the
24 bumper stickers and the usual mongrelization of ideas that
25 goes on on bumper stickers.

1 When you step back, of course, this isn't all
2 pricing. A lot of this is a very detailed what I call NERC-
3 type issues, which were handled quite in -depth by
4 everybody, and I appreciate that. But when we really got
5 down to the heart of the debate about the ratemaking policy,
6 which I will admit, I didn't do the first time we dealt with
7 this original rule, quite as much.

8 But when we really drove down and tried to think
9 what it is we're really trying to do here, we're trying to
10 finance and expand the transmission grid in a thoughtful
11 way, that, much like the gas grid allocates the risks
12 differently than the old system of just shoving it down to
13 the customer they way they used to do, and whether that
14 customer is a supplier or consumer, is kind of immaterial.

15 But this attempt to both clarify the policy that
16 says, hey, that's what we've been about all along, but, for
17 me, as one of the folks who's voting on it, to really
18 understand what those who were reading our rules and reading
19 our Orders, didn't seem to get, that we all, kind of on the
20 inside the Commission loop here, just knew intuitively.

21 This gives us an opportunity to, in fact,
22 translate into pretty clear English, that, in fact, this
23 policy, much like the gas policy, does keep existing
24 customers from bearing the risk of incremental investment
25 and does put the allocation in the right direction, but,

1 importantly, does not, as I think some advocates have tried
2 to do, require that the generator pay twice, what, up till
3 now, the participant funding debate has really been about.

4 We want you to pay the embedded cost and the
5 incremental cost, but the crediting policy, as revised here
6 and clarified here in a laser-like way, focused on here,
7 does say we're doing this just like we did on the gas side.
8 You pay once, you pay an amount of it. Make sure your
9 existing customers aren't disadvantaged, but you're also
10 making sure that you, interconnector, don't pay twice, don't
11 pay a cumulative price that, in fact, will deter all sorts
12 of entry.

13 So, I think that is an important step, not only
14 for me, intellectually, but for the Agency in explaining and
15 clarifying what I think people outside the Agency have
16 misunderstood, quite frankly, in a way that mystified me
17 over the past two years. But you've got to listen to people
18 where they are, and take their pleadings as they are. I
19 appreciate the thoughtful back-and-forth that we've all had
20 on this over the past couple of months as we looked at the
21 rehearing Petitions here.

22 COMMISSIONER KELLY: Pat, I just wanted to
23 underline one of the things that you said. Over the past
24 year, including months before I joined the Commission, I did
25 talk to a number of state commissioners who did not

1 understand that the pricing policy protected the native load
2 customers from a rate increase due to the interconnection of
3 merchant transmission.

4 So, I appreciate the opportunity that we've had
5 to clarify that, and I appreciate the Staff's efforts to
6 really highlight and explain how native load customers are
7 protected. So, thank you.

8 CHAIRMAN WOOD: Let me just ask an operational
9 question. During the crediting period, say, it's seven
10 years, is the transmission provider -- and let's just take
11 the non-independent transmission provider, since that's
12 where this is primarily focused -- is the non-independent
13 transmission provider collecting the cost of that whole
14 facility? How are the costs being collected here during the
15 crediting period?

16 MR. WENTWORTH: During the crediting period, the
17 costs of the network upgrade would only enter into the rate
18 base as credits are made.

19 CHAIRMAN WOOD: So if you pay half of it in three
20 and a half years, and, say, there was a \$50 million upgrade,
21 then \$25 million would be included in rate base? It's only
22 included once the credits are given, and the credits are
23 given once. The expanded use of the system has taken on the
24 load or the generation of that facility, right?

25 So the denominator, the units over which the

1 costs are spread, has increased, because the generator is
2 putting his product on the system.

3 MR. WENTWORTH: That's right. In a system where
4 load is growing, which is typical of many systems, that's
5 true.

6 CHAIRMAN WOOD: So the numerator is going up in a
7 simple fraction of calculating the rate, but the denominator
8 is going up as well?

9 MR. WENTWORTH: That's right.

10 CHAIRMAN WOOD: What the higher-of policy says is
11 basically the denominator is going up faster than the
12 numerator, otherwise, the company could come in and say,
13 actually, we want to do the higher-of, which would be that
14 increment, that incremental cost where the numerator is
15 actually growing faster than the denominator, if, in fact,
16 that happens.

17 MR. WENTWORTH: That's right.

18 CHAIRMAN WOOD: I think what happened is that in
19 our empirical observation of what's been going on in the
20 past several years, it always was the numerator that grew
21 smaller than the denominator, so there really wasn't a need
22 to be so worried about the fact that you had this other
23 option, as we have seen actually more on the gas side, where
24 we have that.

25 We've constructed an entire stand-alone lateral

1 pipeline, for example, that didn't have higher costs than
2 the average cost of the depreciated system.

3 A separate question: In looking at the service,
4 you can get network resource interconnection service or
5 energy resource interconnection service, just as a business
6 matter, in light of the clarifications we make on the
7 interconnection versus the delivery issues that, again, like
8 the other issues, were not clear to the outside world, and
9 kind of took people in a very different direction than our
10 rules intended.

11 With that clarification that interconnection is
12 separate from delivery service, and that each may have their
13 own associated upgrades and upgrade cost built into them,
14 why would a generator do the NRIS? Why would they not just
15 do ERIS, then when they get a customer, then they decide
16 what upgrades are needed to supply that load and just do it
17 once?

18 MR. WENTWORTH: For most traditional customers,
19 traditional network customers, that would probably be the
20 option they would take. They would take the simplest
21 interconnection service and then just request this very
22 specific delivery service that they need and just do the
23 upgrades they need, because normally when they ask for an
24 interconnection, they have specific loads in mind that they
25 would then serve.

1 I think the genesis of the network resource
2 service is more from the standpoint of the merchant
3 generator who comes to the marketplace without specific
4 customers in mind. But the merchant generator is
5 interested, not just in the very minimal service that
6 provides only as-available access to the existing
7 transmission capacity, but something that gets him into
8 perhaps the backbone of the system.

9 That may be that with a few upgrades here and
10 there, he can engage in a much wider area of commerce and
11 then maybe at some future date, enter into a long-term
12 agreement with a specific customer and then just walking the
13 service that way.

14 CHAIRMAN WOOD: It's their option and they can do
15 it, but if you were a generator, which we might see more of
16 in light of the demands of the credit community, that is
17 locking in a long-term deal, and that's kind of the business
18 that you want to pursue. Then you would really just do that
19 study once in the context of the transmission delivery
20 service contract and make sure you have sufficient
21 transmission capacity to get that sale done, right?

22 MR. WENTWORTH: That's right.

23 CHAIRMAN WOOD: But the NRIS says that if you, as
24 a generator, just want to get up on the grid and sell
25 around, you can fill in that other part later. I think it's

1 better to have the two services than the unclear one that
2 we've had in the past, so, clearly, that's good.

3 Now, let me ask a question, because one of the
4 big focuses here of the rule, at least from the beginning,
5 for me, was that you had deliverables and timelines and that
6 old slow ball game that could be played. That was put in
7 the history books.

8 Do we have similar time tables on the delivery
9 contract side when you're doing studies and upgrades for
10 that second part of the transaction when, say, the coop is
11 doing a deal with a generator and the local transmission
12 provider, the IOU, perhaps, has to do studies for that coop
13 to do business with the generator? That's not covered by
14 this rule, is it?

15 MR. WENTWORTH: No, this is strictly
16 interconnection.

17 CHAIRMAN WOOD: Is that covered in the OATT? Are
18 there timelines in the OATT when you come in to get the
19 delivery services, that they've got to move in the same kind
20 of hasty -- not hasty, but the same expeditious manner that
21 we had to move on the interconnection side?

22 MR. CANNON: There are times tables in the OATT.
23 Indeed, one of the clarifications that we made in Order
24 2003-A is, we heard some complaints from the transmission-
25 dependent community, the load-serving entities, that the

1 original rule was too focused on the generator side.

2 They said, I know darn well that I'm going to
3 build this generator and I know the particular loads that I
4 want to be able to serve with that generator. What we've
5 said in this rule is that customer can come in and
6 simultaneously ask for the minimal ERIS kind of service, but
7 also provide the transmission provider with all the
8 engineering details they would possibly need to model the
9 exact usage that that customer intends to make of the system
10 and simultaneously request service under the OATT. So it's
11 one-stop shopping that hopefully would satisfy some of the
12 concerns that we've heard from the municipal community and
13 from caps and others.

14 CHAIRMAN WOOD: You're saying that when a new
15 generator comes in and he's actually dedicating his load to
16 the coop or another utility or whatever, a wholesale
17 customer, that that study process for the changes that may
18 be necessary, upgrades that may be necessary to the delivery
19 system, to get from the generator to where the load is being
20 taken, the voltage by the coop or muni, that that is an
21 expeditious and is as focused and is not able to be
22 stretched out as we had very thoughtfully done on the
23 interconnection side?

24 MR. CANNON: That's correct. That should be an
25 easier exercise for the transmission modeling provider. The

1 ERIS is somewhat amorphous, and we've kind of strived to
2 capture a kind of comparability. If some generator comes in
3 and wants to interconnect to the system and doesn't know who
4 his customer base is, it would ultimately be, but would like
5 some cost assurance up front, that it knows what upgrades it
6 might be exposed to, just as the transmission provider would
7 model, if it were putting a generator on its system.

8 We've created this more expansive service, but I
9 tend to think that of the municipal customers, the load-
10 serving entities coming in, somewhere sort of between those
11 two points on the spectrum, between this kind of very
12 minimalistic I just want to interconnect to the system,
13 versus I want to be able to go anywhere on the backbone of
14 the system.

15 If they know exactly where they want to go, they
16 know where the generator is going, they know which loads
17 they're going to want to serve, they should be able to
18 provide that information to the generator, combine their
19 interconnection requests with a request for that specific
20 set of services, and that should be a very easy modeling
21 exercise for the transmission provider.

22 CHAIRMAN WOOD: Let me ask just one more
23 question: We've got cases inhouse on the queuing issue, and
24 the game that people play on the queuing. People in the
25 queue side and people administering the queue side, is just

1 almost numbing.

2 I'm trying to figure out, have we done anything
3 here that would either minimize the need for people to so
4 assiduously argue for their place in the queue, which is the
5 queue for interconnection, or is that still the same
6 battlefield we've got today in many areas?

7 MR. POOLE: We've got quite an extensive writeup
8 on queuing, and it allows us the use of clustering in the
9 queue to do studies, and it also identifies what's required
10 to get into the queue. It identifies that if the
11 transmission provider doesn't think there's enough
12 information, he has to tell you within ten days, so you can
13 fix it and get back in the queue without losing your place.

14 So there are significant items in there relative
15 to queuing.

16 CHAIRMAN WOOD: I would just be interested, as we
17 move forward under 2003-A and live under this rule, to hear
18 from those out there in these queues, if there is anything,
19 now that we've got a broader framework in place here during
20 this rule, if there is anything that needs to be done on a
21 more surgical basis with regard to the queuing issues,
22 because there seems to be a lot of fussing about issues
23 relating to the queue that I do hate that we've kind of
24 created a kind of artificial property right by having people
25 get in the queue. I waited in the two-hour line for the

1 Passion last Friday, so I know what positions mean in a
2 queue.

3 (Laughter.)

4 CHAIRMAN WOOD: I was willing to pay a price for
5 that, too, but didn't have to. But I don't know if we
6 served a great way by creating these property rights of
7 places in the queue. Maybe we can't get around it, but,
8 anyway, that's just an open invitation for people out there
9 living in queues to come talk to us about your experience
10 and give us suggestions on anything that we haven't done to
11 make it better.

12 COMMISSIONER KELLY: I know one of the goals of
13 Order 2003 and this Order is to preserve reliability of the
14 grid. I was wondering if, in the course of your working on
15 this rulemaking effort, you assessed the impact on
16 reliability of the interconnection on merchant generation?
17 Presumably, the goal has been met of preservation of
18 reliability. Has reliability increased?

19 MR. POOLE: I think, yes, and reliability will
20 increase, basically because we have identified exactly what
21 the studies are that need to be done early, so that nothing
22 falls in the crack, and that each generator is studied for
23 his input to the system, and is studied the same everywhere.

24 24

25 That should increase reliability by having

1 everybody on the same fleet in studies.

2 COMMISSIONER KELLY: Thank you.

3 CHAIRMAN WOOD: On the very last page of the very
4 thick document that we looked at, is a blank page called
5 Appendix G. It's entitled Requirements of Generators
6 Relying on Newer Technologies. I heard Nora's note and her
7 comments about the kind of place where we put a placeholder
8 for when the new technologies can have their needs
9 accommodated here.

10 What do you all envision will happen to this
11 piece of paper?

12 MR. POOLE: At the time when we were doing this
13 document, interconnections like for wind were being
14 developed around the country. They didn't have a definite
15 completed methodology for doing studies between every area,
16 the same kind of studies.

17 I think that's almost coming to fruition now
18 through getting that developed. What we would hope for is
19 that as the technologies develop exactly what's needed, then
20 we can fill in Appendix G with the appropriate technical
21 requirements for interconnection of wind or interconnection
22 of fuel cells or whatever that generation needs to be,
23 because we couldn't necessarily know exactly today, what
24 they were going to require for the interconnection studies,
25 so we look at that as a placeholder.

1 CHAIRMAN WOOD: Great. We look forward to
2 filling it in when we get there. We also, as you mentioned,
3 with fuel cells, we also have a related project which has
4 not been adopted as a rule yet. It's ongoing here. That's
5 with the generators that are less than 20 megawatts, kind of
6 referred to as the small gen rule. We'll be looking at that
7 probably this summer, so we appreciate y'all's expertise and
8 hand-holding throughout all of this, and look forward to
9 seeing the next one. Let's vote.

10 COMMISSIONER BROWNELL: Aye.

11 COMMISSIONER KELLIHER: Aye.

12 COMMISSIONER KELLY: Aye.

13 CHAIRMAN WOOD: Aye. Folks, that's it for today.
14 We've got a pretty full deck next time, but meeting
15 adjourned.

16 (Whereupon, at 11:05 a.m., the open session was
17 concluded.)

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