

BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: :

CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :

CONSENT MARKETS, TARIFFS AND RATES - GAS :

CONSENT ENERGY PROJECTS - HYDRO :

CONSENT ENERGY PROJECTS - CERTIFICATES :

DISCUSSION ITEMS :

STRUCK ITEMS :

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805TH COMMISSION MEETING

Hearing Room 2 C

Federal Energy Regulatory

Commission

888 First Street, N.E.

Washington, D.C.

Wednesday, September 18, 2002

11:25 a.m.

APPEARANCES:

COMMISSIONERS PRESENT:

CHAIRMAN PAT WOOD, III, Presiding

COMMISSIONER LINDA KEY BREATHITT

COMMISSIONER NORA MEAD BROWNELL

COMMISSIONER WILLIAM L. MASSEY

ALSO PRESENT:

DAVID L. HOFFMAN, Court Reporter

P R O C E E D I N G S

(11:25 a.m.)

CHAIRMAN WOOD: Good morning, we appreciate you all waiting. This meeting of the Federal Energy Regulatory Commission will come to order to consider matters which have been duly posted in accordance with the government and the Sunshine Act for this time and place. Please join me in the pledge to our flag.

(Pledge of Allegiance recited.)

CHAIRMAN WOOD: Before me move to today's business, I would like to make some presentations to members of our Staff who are receiving the Career Service Award and are leaving our fair agency for greener climates in retirement or elsewhere. So I'd like to move to the podium here.

(Retirement presentations given.)

(Applause.)

SECRETARY SALAS: Good morning, Mr. Chairman. Good morning Commissioners. Let me first mention the items that have been struck from the meeting since we issued the Sunshine Notice on September 11th. They are as follows:

E-11, E-19, E-20, E-28, E-30, E-32, E-33, E-35, E-38, E-40, E-45, E-47, G-37, H-2, H-6, H-11, C-9 and C-10.

CHAIRMAN WOOD: By the terms of Order 637, the two year waiver of the gas cap in the secondary market will

automatically sunset at the end of this month unless the Commission takes action to continue the waiver. The Commission is not taking action at this time so the waiver will no longer be in effect after September 30.

SECRETARY SALAS: Your consent agenda for this morning is as follows:

Electric items E-3, E-4, E-6, E-8, E-13, E-15, E-16, E-18, E-21, E-24, E-26, E-27, E-36, E-39, E-41, E-43, and E-44.

Gas items G-3, G-5, G-7, G-9, -11, -12, -13, -14, -17, -18, -21, -24, -26, -27, -28, -29, -31, -32, -35, -36, -38, -39, -40, -41, -43, -46 and -48.

Hydro H-3, -4, -15 and -16.

Certificates C-1, C-2, -3, -4, -5, -6, -7, -8, -11, -13, -14, -15, -16, -17, -18, -19, and C-20.

The specific votes or remarks for some of these items are as follows:

E-15, Chairman Wood not participating. E-24, Chairman Wood not participating, E-36 Commissioner Massey dissenting in part and concurring in part. Commission Massey votes first this morning.

COMMISSIONER MASSEY: Aye, with respect to E-36 concurring and dissenting in part.

COMMISSIONER BREATHITT: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN WOOD: Aye. Will concur on C-19 and as the Secretary noted E-15 and E-24 I'm not participating.

SECRETARY SALAS: The first item for discussion this morning is E-34, Midwest Interdependent Transmission System Operator.

CHAIRMAN WOOD: This was a case we sent to hearing for determination of a return on equity for the first regional transmission organization that the Commission had approved since the Order 2000 was promulgated in 1999, this case is now back before us on hearing. The Judge determined that the midpoint of the proxy group's range of reasonableness was 12.38 percent return on equity. In this Order, we make the following addition to that, with the following language that I would like to read into the public record.

At the end of the Order we state, however, there are policy reasons to make up Board adjustments, particularly with regard to the level of operational independence that the Midwest ISO provides. In this case, we will make an upward adjustment of 50 basis points from the proxy group midpoint for the turning over of operational control of the transmission facilities. We will consider providing additional upward adjustments for greater levels of independent.

The Commission will be clarifying its incentive

rate policy in the near future with concrete statements of the behavior and performance that we wish to incentivize. And I'm pleased with our discussions on this order and wholeheartedly support it.

COMMISSIONER BROWNELL: I would just like to add that I am also pleased but hope that we can get to clarification quickly in an industry that has suffered no end of difficulties in the last six months. I think it's important that we be as clear as we can, particularly regarding issues like incentives that have a strong implication for what gets done and what doesn't. So I would encourage us to be aggressive in how we work that through.

COMMISSIONER BREATHITT: I would also like to add in that I am pleased with this announcement today on the Midwest ISO rate determination. I think it's a signal that the Commission continues to be open on properly construed incentives. We stated so in some orders, I think it was last summer, on removing obstacles last spring, and we also had incentive language in Order 2000. This is a glimpse of what the new thinking of the Commission may be on incentives with respect to RTOs and independent transmission companies down the road. So I'm pleased with this signal.

COMMISSIONER MASSEY: I strongly support this policy as well. I believe that the Commission does wish to incentivize good performance, operational independence,

structural independence. I believe that we should be as clear as possible about the kinds of behavior and kinds of structures that we want to incentivize with respect to ROE or whatever incentive policies that we have. I look forward to working with my colleagues and I agree with you, Commission Brownell, that we need to come to grips with this as soon as possible. But I think we need to be very concrete and very thorough in our pronouncements about the kinds of behavior and conduct and structure that we want to financially incent.

CHAIRMAN WOOD: In our discussions leading up to this, I think certainly suggestive similarly to what we did last fall with a number of discrete issues that we wanted to think about, this is probably one that's ripe for from staff white paper discussion as we had last year with regard to capacity requirements and others. And I will work with our senior staff after today's meeting to make sure that we have some thought pieces up to discuss these items to provide that comprehensive but concrete guidance that I think ought to not wait until the next case trickles through here but can be informed in advance of any filings. Thank you all.

Let's vote. I think Bill you're first.

COMMISSIONER MASSEY: Aye.

COMMISSIONER BREATHITT: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN WOOD: Aye.

SECRETARY SALAS: The next items for discussion are E-9 and E-10, Avista Corporation, with a presentation by Andre Goodson.

MR. GOODSON: Good morning. E-9 addresses the stage two filing concerning a proposal by a subset of the RTO west applicants to form transconnect which is intended to be an independent transmission company.

The draft order provides guidance to the transact applicants concerning their innovative transmission rate proposal. The draft order also finds that the proposed transmission planning and expansion protocol, as modified by the order, meets the requirements of Order Number 2000.

E-10 addresses applicant's stage two filing which provides additional details concerning the proposal to form RTO West.

The draft order recognizes that the stage two filing is the result of a long, intense and productive stakeholder process in the northwest, and it finds that the RTO West proposal, with some modifications and further development of certain details, will satisfy not only the requirements of Order number 2000 but can also provide a basic framework for a standard market design for the west.

Thank you.

COMMISSIONER BROWNELL: Could you elaborate, if you will, on some of the items that we have approved, that I think reflect the very challenging work that has been done by our Staff and the market participants in addressing some of the regional and structural concerns that market participants have expressed?

MR. COLEMAN: There are a number of items in the RTO West proposal which the Order finds reasonable and acceptable, to include such things as their governance proposal; the license plate pricing proposal that they have, including a transition period to avoid cost shifts, which the parties found fundamental to establishing their market design framework.

The congestion management proposal, which is a locational pricing proposal that uses financial options as a hedge against congestion, is another area which the Order find acceptable, although there will be additional discussions and technical conferences to be held to flesh out the remaining details of that conceptual plan.

There is a market monitoring proposal that they came in with for not only a West-wide market monitor concept, as well as stand-alone market monitoring that is being proposed by the Order.

I think that covers the majority of the highlights of what is in a very extensive proposal that the

parties have been negotiating over the past several years.

COMMISSIONER MASSEY: They also propose a single control area; do they not?

MR. COLEMAN: Yes.

COMMISSIONER MASSEY: How many control areas were there that were consolidated into this single one?

MR. COLEMAN: The proposal is to move to a single control area. Right now, I believe that there are probably eight or nine control areas in the West.

There are a number of public utility control areas, and, to the extent that there is additional public participation, there are some control areas that are operated by some of the public utility districts that could potentially be consolidated, were they to join the proposal also.

COMMISSIONER MASSEY: I consider that to be a very positive change that this proposal reflects.

You mentioned the single transmission service, or single transmission for all new service, but with a voluntary conversion of transmission contracts; is that right?

MR. COLEMAN: The proposal is to have a voluntary conversion of any of the preexisting contracts to an RTO West service, which will be a single service, not unlike that which has been suggested in the Standard Market

Design NOPR.

COMMISSIONER MASSEY: It would be my hope that the RTO service would be perceived as so attractive that these other contracts would converge to it over a reasonable period of time.

Were you finished? Did you have something else?

COMMISSIONER BROWNELL: I just wanted to actually ask you to elaborate a little more on next steps, but also I want to attribute the kind of direction to my colleague, Linda Breathitt, who, really, I think, pinpointed it when she said that this filing was informed by standard market design.

But standard market design is clearly informed by these kinds of discussions. I know how hard and the time commitment the West has made to kind of working through these issues, and certainly know that you haven't seen home in quite a while because of the time you're spending, but could you spend more time on next steps?

Then I just wanted to say congratulations to everybody, because I think this is just a wonderful example of collaborative efforts coming to a mutually-satisfactory conclusion.

MR. COLEMAN: The Order sets out or directs the Applicants to continue the stakeholder process, which has been ongoing through a regional representatives' group, an

association of all of the stakeholders, not just the filing Applicants, to address remaining issues of their market design proposal that needs to be completed.

We're also directing that there will be additional staff technical conferences to be held, to help understand the issues better, and to get a full education of the unique characteristics that RTO West operations will require in terms of completing the market design.

A couple of examples: There is a proposed scheduling process that we are approving. There are certain details in terms of how their day-ahead scheduling process will allow modifications.

That is part of their proposal that is yet to be developed. Part of understanding that is as to how that will fit in with their congestion management proposal, which is conceptually to reflect a locational pricing scheme. Some of those details have not been actually put down in final, on paper, or in their tariff.

Those are the types of things that we are looking to get additional information on from the Applicants, and develop it through the stakeholder process, so that we can be informed as to the appropriate market design that the Northwest will implement.

COMMISSIONER BROWNELL: And our colleagues in Canada are active participants in these discussions; are

they not, since they are important partners?

MR. COLEMAN: Yes, absolutely. In fact, what is acknowledged in the Order from the last time that we had an RTO West filing here, in which to deal with BC Hydro that has joined in as a filing party.

They are still in discussions with the Provincial regulators in Canada for their formal participation in that. But they have been at the table and negotiating, and have joined in this filing.

Certainly from the indications I've had from my discussions with the Canadians, they are fully supportive of getting the RTO West organization up and running, and hopefully participating fully in that.

COMMISSIONER MASSEY: I would like to commend all of the parties that are participating in RTO West. I'd like to particularly commend the Bonneville Power Administration for its participation. I think it's roughly 80 percent of the transmission grid in that region of the country; am I right about that, Mike?

MR. COLEMAN: Correct, Bill.

COMMISSIONER MASSEY: They're a major player, and we certainly need them to be involved, and I think they are doing the right thing. I know there is still a lot of work to be done with respect to a number of issues.

Issues have been raised with respect to the

application of locational marginal pricing in a hydro-based system.

I know we all need to be educated more and more on that question. I just met the other week with a guy named Philip Bradley, who is very familiar with the market in New Zealand, which is a hydro-based market that uses locational marginal pricing very successfully.

I look forward to that continuing debate, and I commend all of the parties for their participation in RTO West. We look forward to continuing to move the ball forward and to making this work in the Pacific Northwest.

COMMISSIONER BREATHITT: I would like to add a little bit to the comment that Nora Brownell made about some specific language with respect to the RTO West filing and the SMD NOPR.

It is a sentence that I will just read: There is a broad overlap of issues between that proposal, meaning our NOPR, and this filing. The Commission will take the opportunity here to provide a comparison between RTO West's filing and the proposed rule.

We look at this comprehensive filing as both informing and being informed by the proposed rule.

That, to me, means that the Commission is going to do what it said; we are going to allow for regional differences. Bill just pointed out one very important one.

which is the hydro consideration in the Northwest. Even though there is language in places in the Order that do talk about our proposal, it was difficult to completely ignore that, because it is on the table, and we wanted to give some indication of how they might fit together and where there are places that regional flexibility will be important to be employed.

I am pleased that the Order does give deference to the RTO West filing in places where that's important, and that we do have an open mind on the fact that the standard market design document is still a proposal and we don't have comments yet.

I read it in that vein, and I urge those from the West -- we are continuing to make sure we employ the right flexibility in that part of the country. I think it's a great Stage II or Phase II filing.

CHAIRMAN WOOD: One of the issues that I think has a lot of ink in this order is the congestion management RTO Function No. 2, Congestion Management, which goes throughout this Order.

I have to admit that it means a lot more to me to have a live filing here that people have haggled through for two years as to how they think congestion ought to be handled, than the more generic approach that we have taken.

I think what we want to say in all of our dockets

is that congestion has got to be managed. The thrust of SMD is that we want to make sure that approaches that are taken in one region do not have a negative impact, such that markets can be gamed or manipulated or such that inefficiencies are erected at the border.

I didn't get the sense from the folks --there are a lot of people that want to make sure that those borders between RTO West and the other two RTO candidates out in the Western Interconnect are permeable and do work and do have invisible seams to them.

I found their comments on that particular issues, relatively helpful. I think that the further workshop on this issue that is envisioned is one that I think will be very, very helpful in not only understanding how this system works, but in understanding what we need to take from it in looking at proposals across the country.

I will admit that, despite the heat and the smoke, this one is pretty much best in class, and we need to take from here in these efforts. Mike and I were out there in June, meeting with a number of the parties. It was a little awkward because they had already filed this document, and I couldn't quite jump up and down and say, god, this is great, without, of course, pre-judging the matter.

But it was good then and it's very good now, and I'm pleased that the effort that has been put in here, now

can move to another level, to converge into a tariff, to operationalizing what works here.

I think we've got a couple of questions flagged here. One is on the day ahead market. Coming from the wholesale market that I got to set up in my last job, it did not have a day ahead market. Like RTO West, it had a number of features that are needed in the day ahead market but did not have the full-fledged day ahead bid-based energy market that we've talked about elsewhere.

And I think I'm open to see why the parties think that what they have there is sufficient. I do know from our own internal discussions that a day ahead market works very well with the type of market mitigation and market monitoring capabilities that we want all of the RTOs to have. And with regard to that particular point, that is the one item that we didn't talk a lot about in Order 2000 that we have talked a lot about in last month's proposal for Standard Market Design that I would expect parties out there will want to work with us to get set up and get set up right.

So in one of the follow-up conferences here that we talk about in addition to congestion management in the day ahead market, we also mentioned the market monitoring capability, and I do look forward to our discussions with the parties with the federal regulators out there about what type of market, monitoring market mitigation regime is appropriate for that region.

And I do acknowledge here, as I think we have elsewhere, that there was not a resource adequacy requirement in the Order 2000 rule that we have put in the SMD proposal, and we want to talk to the parties out there about what kind of resource adequacy proposal needs to be in RTO West, if any.

Those are kind of I think the big three issues: Market monitoring, congestion management and resource adequacy, that we continue to go on with. And again, I think the timing of those conferences which I know will be on a relatively focused schedule, will help us as we look at the other parts of the country as well.

So I applaud the parties. I'm glad I'm liberated to open my mouth now and say what I've been thinking for the last three months. But this is very fine work, and I think is very good for the customers not only in that part of the country but for all of us. And I appreciate the hard work that a number of utilities and a tremendous amount of parties from all across the spectrum. Because when they went around the room and introduced themselves and what they were, it was gratifying to see that such broad consensus could be reached on what I know are a lot of difficult issues and have taken a number of years.

And Mike, my hat's off to you and your colleagues on the Markets West Staff who have done a lot of work with

the RTO West proposal and the RTO West parties in the past couple of years. And I think it's a real good day. And I am pleased to vote an enthusiastic yes for the order.

COMMISSIONER MASSEY: Aye.

COMMISSIONER BROWNELL: Aye.

COMMISSIONER BREATHITT: Aye.

CHAIRMAN WOOD: Aye.

SECRETARY SALAS: Let me just clarify for the record that we're voting on E-10 only this morning. The next item for discussion this morning is E-1, New England Power Pool.

CHAIRMAN WOOD: Before we move on, let me clarify. E-9, in light of our discussions on the Midwest ISO and the incentive regulation or ratemaking issues there, we are going to work a little bit further on the E-9 item and anticipate issuing that soon, notationally, between now and our next meeting.

So for parties that are waiting on that, please know it's got one small item that's under construction and will be out soon.

SECRETARY SALAS: New England Power Pool, with a presentation by Debbie Ott, Kevin Huyler, Morris Margolis, Katherine Waldbauer and Dave Mead.

MR. HUYLEYER: Good morning. Market Rule 1 introduces to New England a multi-settlement system modeled

after the PJM market design. The system will replace NEPOOL's existing bid-based, single settlement system. ISO New England and NEPOOL will implement bid-based security constrained, day ahead, and real time energy markets.

The energy clearing prices in each of these markets will be determined by locational marginal pricing or LMP, which allows for the identification and appropriate allocation of costs associated with transmission congestion.

New England's LMP system will eventually use a full nodal pricing methodology. In the interim, ISO New England and NEPOOL offer zonal pricing for load. This interim period should allow for enhancements to the metering and data systems infrastructure currently in place throughout New England. LMPs will be determined on the basis of actual operating conditions.

The ISO will maintain the \$1,000 bid caps for energy and ICAP currently in place in New England. LMP will also over a longer timeframe communicate appropriate price signals regarding the development of new generation and transmission.

The implementation of a multi-settlement system and nodal pricing should also contribute to seams reduction in the Northeast.

Market Rule 1 also creates financial transmission rights or FTRs in order to provide market participants with

the opportunity to hedge congestion costs. ISO New England and NEPOOL will allocate 100 percent of these FTRs in auctions. Each FTR holder may retain the FTR, sell it bilaterally in the secondary market, or sell it in an FTR auction. The auction process ensures that those users who place the greatest value in FTRs are able to procure them.

This proposed order would accept the proposed changes to the New England market with one modification. And from there, I'll hand it to Debbie Ott.

MS. OTT: Thank you. New England proposes to adopt a mitigation plan that relies on the conduct and market impact test. The conduct test compares a resource's current offer with the reference level that serves as a proxy for what the resource would offer if it had no market power.

Offers that exceed the reference level by a significant amount are subject to a market impact test to determine the effect of the offer on market clearing prices. If the market impact is significant, New England will investigate the offer to determine if it is justified for competitive reasons. Offers will be mitigated to reference levels only if the resource's offer fails both the conduct and impact tests and New England is not satisfied that the bid was justified for competitive reasons.

The mitigation plan takes the view that as

transmission becomes more constrained, opportunities to exercise market power increase. Hence, threshold levels for the conduct and market impact tests become tighter as transmission constraints become more significant. The tightest restrictions apply in chronically constrained areas, formerly identified as designated congestion areas or DCAs.

In DCAs where efficient entry and exit decisions are particularly critical to reliability, New England also proposes a safe harbor bid that would apply to all units in the DCA. The safe harbor bid would approximate the expected competitive bid from a new hypothetical combustion turbine peaking unit. Units in DCAs would not be subject to mitigation as long as their offers did not exceed the higher of their reference level or the safe harbor bid.

Also, as a backstop that would ensure the availability of units needed for reliability, such units could seek compensation under one of two pro forma contracts.

The proposed order would accept the mitigation plan with one modification and one clarification. The modification would limit the applicability of the safe harbor bid to only those times when all capacity from all available resources in the DCA was needed to serve load or reliability. In other circumstances, resources in the DCA

would be subject to the same mitigation as those outside the DCA.

The clarification would require that the market impact test be based on nodal prices.

Thank you.

COMMISSIONER MASSEY: Thank you for a good explanation of this order. I, for whoever would like to answer this question, it seems pretty clear that this proposal moves very sharply in the direction of our proposal for Standard Market Design, does it not?

MS. OTT: Yes it does.

COMMISSIONER MASSEY: Yes. And it has a number of good features that have been highlighted.

Let me ask a question on this mitigation plan, Debbie, that you described. It's not precisely an AMP, but it is similar to that, is it not?

MS. OTT: It is similar in that there are specific threshold levels and a conduct and impact test that is part of AMP. It is not like AMP in that it is not automatic. It's not triggered by any automatic kind of pricing.

COMMISSIONER MASSEY: Mm-hmm. Is this proposal reasonably consistent with the mitigation plan that is now utilized by the New York ISO?

MS. OTT: Yes, I believe it is.

COMMISSIONER MASSEY: And I know there is a proposal for an actual merger between the New York ISO and the New England ISO, which is not before us today. But it seems to me to be a very positive feature for New England to attempt to formulate a mitigation plan that could be used regionwide in the Northeast.

It seems to me that this proposal also establishes fairly bright lines for conduct, which I also think is a very positive, positive feature.

I'd like to commend the New England parties for coming to grips with this. This agency has been moving them toward a multi-settlement system and improved congestion management system for the last couple of years, and this seems to me to be an excellent proposal and a very good order, which has my full support.

COMMISSIONER BROWNELL: I concur with Commissioner Massey that I think this represents some great strides forward. I have a couple of areas about which I have concerns. And actually, adding on to Commissioner Massey's question, isn't AMP automatic in New York? So they're similar, but they're not the same?

MS. OTT: They are similar in that they both focus on developing reference prices for generators and investigating bids that exceed certain reference levels by significant amounts. But the New York plan is automatic,

whereas the New England proposal would only take effect following an investigation that indicated market power was the --

COMMISSIONER BROWNELL: Why is it that between and among two entities who are proposing a merger, they would approach this, even in a slightly different way? Is there some significant difference in the market in New England that would suggest that this different approach for the foreseeable future is necessary?

MS. OTT: I'm not sure I know exactly how to answer your question. The mitigation plans in New York and the proposed mitigation in New England are very similar in philosophy and the way they go about investigating generator bids and the effect on the market.

The fact that one has an automatic feature and one does not I'm not sure is really as significant as it may seem.

COMMISSIONER BROWNELL: Okay.

MS. OTT: It's just always confusing to me that philosophical agreement is one thing, the money comes in implementation, and why if you're moving towards a merger -- I just am not sure why you would make the distinction, however small.

COMMISSIONER BROWNELL: In all cases, the approach to mitigation is to mitigate the generator's bid.

but the generator would receive the market clearing price?

MS. OTT: Mm-hmm.

COMMISSIONER BROWNELL: Tell me this. This also proposes to mitigate in unconstrained markets. Is that the case?

MS. OTT: There is a feature of the plan that would mitigate even when there are no transmission constraints, potentially.

COMMISSIONER BROWNELL: And that was based on a study of market power, SMA, hub and spoke? What's the basis for that?

MS. OTT: That is part of the current mitigation plan in New England which this Commission actually directed New England to adopt some time ago when it -- back a little bit historically, the New England plan was judged to be too discretionary and specific thresholds and the like were required. Other mitigation plans such as New England's at the time were made to conform with that general lack of discretion, so to speak. And that's the part of New England's mitigation plan that applies when there are no transmission constraints.

COMMISSIONER BROWNELL: Okay.

MS. OTT: I seem to have confused you. I'm sorry.

COMMISSIONER BROWNELL: No. I mean, I

appreciate the history. As we move towards markets, while I appreciate in a transitional period one needs belts and suspenders to be sure, looking at what happened out West, I'm not sure if mitigation is indeed to address market powers and constraint issues, why it is one would have them in an unconstrained market, and when do we wean ourselves from kind of the entire mitigation. Linda, you wanted to say something.

COMMISSIONER BREATHITT: Of course there's also the \$1,000 bid cap which in my mind could be applied at a time when there is an unconstrained situation that arises. You know, my question is, why would you need both? And isn't it too much of an artificial clamp that would send irregular or uneconomic price signals to have that? I have a problem with that part of the order.

MR. MEAD: If I could just jump in here for a second. I think at least the underlying philosophy underlying both the mitigation that's proposed here and that, as Debbie mentioned, has been in existence for a while in New England, as well as the proposal, or the mechanism that exists in New York, is that while transmission constraints are certainly one structural feature that can create market power, there may be instances when market power can exist without transmission constraints.

And, you know, we might see that exercise of

market power at high prices, but prices that nevertheless are below \$1,000. And so that's at least the underlying sort of philosophy behind both of these mechanisms.

COMMISSIONER BREATHITT: The one in New York is in a load pocket. So the AMP procedures kick in in a particular -- in situations that arise in the New York City load pocket.

MR. MEAD: Commissioner, although there is load pocket mitigation in New York, I believe that the broader New York mechanism applies whether or not there are transmission constraints.

As a practical matter, the few times when their mechanism has kicked in has been in instances where there has been transmission constraints. But the mechanism itself exists whether or not there are transmission constraints.

CHAIRMAN WOOD: And exists over the whole New York ISO territory, correct?

MR. MEAD: That's correct.

COMMISSIONER BREATHITT: The original mitigation plan was '98, '99. Is that correct?

MR. MEAD: I think that's right, subject to check.

COMMISSIONER BREATHITT: So since then, hasn't the kind of market situation in New England changed in some very positive ways with the addition of lots of new

generation and things like that?

MR. MEAD: That's certainly correct. There's been a fairly substantial amount of additional generation capacity that has been added.

COMMISSIONER BREATHITT: I guess I'm troubled by a set of rules that is based perhaps on history that has changed. I do wonder how we move through a transition when in fact we begin to see markets develop as we are in New England that we will continue to mitigate 7 by 24. I'm not sure what is achieved by this, but for a continuing reliance on nonmarket signals.

And so I will dissent on this aspect as I will dissent on the ICAP proposal for reasons I think I've kind of been a one-note Sally about in that I don't think the ICAP proposal in this case, the kind of modification to a new ICAP proposal, still does what we have wanted it to do, which is send the signals to build new generation.

And so in anticipation of resolution of this issue either in SMD or in future work, I wonder why we would change it simply to perpetuate in a different way the problems that we've already identified.

I truly appreciate the work that has been done in New England and I appreciate the work of the Staff who has answered a thousand questions for me this week, but I'm just not comfortable supporting those two aspects.

COMMISSIONER MASSEY: I have one more question.

Was there any opposition to this mitigation plan?

MS. OTT: There were concerns raised about different aspects of the plan. Most of the concern I believe was directed to the specifics of what's new, which is the DCA and the congestion threshold.

COMMISSIONER MASSEY: Mm-hmm. Rather than just in opposition to the concept?

MS. OTT: That's correct. Some parties I believe thought matters should be stricter than what New England actually proposed.

COMMISSIONER MASSEY: Mm-hmm.

CHAIRMAN WOOD: Were there any comments specifically on this, I guess we call it wide AMP, even though it's not AMP per se, but this outside of the local load pocket tool, which I guess would be what we call the fourth tool in the SMD proposal?

MS. OTT: I believe there were comments to the effect that they thought the mitigation -- some parties, I think there was a party I can't identify immediately -- that thought that the triggers that applied in the unconstrained areas should be stricter than what was applied. But no one thought this was overkill, that I can recall.

COMMISSIONER BROWNELL: And I appreciate your bringing that up, but I think we're providing the leadership

here. So I, as I hate to wait for complaints to put a vision on the future, I don't necessarily wait for someone to complain. I just, consistent with where I think we're trying to go in RTOs and in the management of these markets, I just think that these two items are inconsistent. So I appreciate the fact that no one brought it up, but I did, because I'm looking towards the future.

CHAIRMAN WOOD: But in the seam issue with them in New York, how do we iron that seam? I guess one's got it, one doesn't? I mean, I'm pretty close to the middle on this issue. It didn't sound like there was a religious opposition to it, and I'm kind of inclined to be guided by the people who have to live with it, the parties.

So, you're right. We are to lead, but I'm also kind of inclined to let that proposal stay where it is until we, you know, have any reason to -- I guess I would be driven a little bit more by the complaint. I mean, I think if it's an unduly interfering threshold with investment and the like, I'd like parties to let me know that. I do think that region, probably better than most in the country, has gotten deconcentrated on generation market power, which is a great big plus, and may well be the place where you would get rid of that tool first.

Maybe looking back you're right, Nora, but I think I'm inclined to be a little bit more -- I'm inclined

to just keep it.

COMMISSIONER BROWNELL: I wouldn't mind asking for comment on this issue. And I would have been a little more comfortable had somebody done some kind of a market power -- some kind of an evaluation --

CHAIRMAN WOOD: As to why you would need it?

COMMISSIONER BROWNELL: As to why you would need it. I hate to be jumping in again without any demonstration other than it kind of feels good. So I think maybe the Northeast would be a good place to go to ask these questions.

COMMISSIONER BREATHITT: I noted in the order that the ISO New England's plan takes the approach that as transmission becomes more constrained, opportunities to exercise market power increase. I think we would all agree with that. And hence, regulatory oversight should become tighter. I think we all agree with that.

But if the basis of the plan is to mitigate during constraints, then what I have the problem with is not -- I don't think there's been justification for applying additional mitigation during unconstrained periods, even given what Dave said. I just would have rejected that very tiny part of the New England ISO's mitigation plan. The rest of it I think is really terrific.

COMMISSIONER MASSEY: Well, let me just say that

I would be concerned about the exercises of market power within the \$1,000 bid cap. I still think there could be opportunities for the exercise of market power, and I think at this particular time in the evolution of markets, especially with a region that has proposed this and there's no big opposition to it, I think we ought to listen to that.

I would also point out that -- I think this is right -- but in the California markets, the prices were not often higher than \$1,000, but they were consistently high. And I think -- I don't know how a plan like this would have operated there.

MR. MEAD: Commissioner, you're correct that in most instances, perhaps in all instances in the California situation, the spot market prices were below \$1,000. And in addition, for the most part, there were no transmission constraints that were present during a lot of the period when prices were in the multi-hundred dollar per megawatt hour situation.

COMMISSIONER MASSEY: Mm-hmm. So I would just like the record to reflect that I'm not luke warm about this. I think it's a very good idea, and particularly at this point in time.

CHAIRMAN WOOD: I'm just doing math here, Madam General Counsel. What do we need to do?

MS. MARLETTE: I could be persuaded by asking for

further comment on this aspect.

CHAIRMAN WOOD: I mean, I'm really dying to get the rest of this order out, because I mean --

MS. MARLETTE: Get the rest out?

CHAIRMAN WOOD: It's very similar to what we just did in RTO West because you've got people that have been working for a long time in response to market situations, our back-and-forth with them to get their market to a lot better place, and I really want to praise you folks on the Staff side, because this came in in mid-July. There was supposed to be a vacation week or two in there somewhere, but yet we're dealing with this in mid-September. And I appreciate how quickly you all turned this very important order around, because I know it matters a lot to the New England commissioners up there and to the marketplace. So thank you for that. And we do want to get it out.

COMMISSIONER BROWNELL: I could be persuaded by an analysis. If the ISO comes back with an analysis unique to New England. Because I appreciate your comments, Commissioner Massey, about California. I think the situation is a whole lot different. But I'll keep an open mind. Let the rest go out. I'll dissent on ICAP, but I'd like them to come back with --

CHAIRMAN WOOD: Could we just carve this part out and then say we'd like some further comment on this?

MS. MARLETTE: Sure. You could act on the rest of it, defer acting on this issue pending obtaining additional comment.

COMMISSIONER BREATHITT: Comment and perhaps justification?

MS. MARLETTE: Correct.

COMMISSIONER BREATHITT: That's a great compromise.

CHAIRMAN WOOD: Okay. I'll buy that. Are you okay with that?

COMMISSIONER MASSEY: Sure.

CHAIRMAN WOOD: Good. Let's do that and bring the order up on notation whenever we're ready. And I just want to add, as I see New England going through a lot of these transitions here, I think it's again like the last one, it informs our national effort to understand these markets and to understand the best approaches. And it also -- which one did I say? It informs them, and that effort informs it.

I think this clearly has been a good product of a lot of the things that are working well in the neighboring market. I know a lot of the software came from PJM here and they modeled the market design on that, and I think that's certainly a great way to jump start and avoid the 75 years of preparation that it took to get to PJM.

And so continue to work with the parties and be responsive to their comments and support the order as it's been recently revised with the changes. So we'll vote that out shortly. Sound good? Good.

COMMISSIONER MASSEY: So we're not voting now on the rest of it?

CHAIRMAN WOOD: Okay. As to the -- we'll carve out the order, and the language will come around on that. But, Commission, let's entertain a vote to vote on the order as amended. Let's vote on the amended order.

COMMISSIONER MASSEY: Are we clear what the amendment would be?

CHAIRMAN WOOD: We'll take the fourth -- we'll take the wide AMP as it's correctly defined as the ISO New England-wide market mitigation tool with the thresholds. What are we calling that, Debbie?

MS. OTT: They are called thresholds. That they apply to parts of the market where there are not transmission constraints that are currently in effect.

CHAIRMAN WOOD: So it would be outside the local pockets?

COMMISSIONER BREATHITT: It would be just the narrow question.

CHAIRMAN WOOD: Not the rest -- I mean, constraint area mitigation tools are about as traditional

and appropriate. Actually, they're a little untraditional and I thought were particularly creative. The use of the proxy CT was a -- what capacity factor did they assume for that? Does that vary?

MS. OTT: Yes. It would vary by DCA. It would be specific to the individual load pocket.

CHAIRMAN WOOD: And vary based on how often it's constrained?

MS. OTT: Vary based on how often -- the fixed cost component would vary based on how often the unit would be expected to operate in that region.

CHAIRMAN WOOD: So it would carve out, not that, but in areas where there's some further justification for why that tool is needed, and what the ISO basically intends for that tool to accomplish. We'll address that specific issues at a future open meeting. So the vote is to approve the balance of the Order.

COMMISSIONER MASSEY: Aye.

COMMISSIONER BREATHITT: Aye.

COMMISSIONER BROWNELL: Concurring, in part, dissenting in part.

CHAIRMAN WOOD: Aye.

SECRETARY SALAS: The next item for discussion this morning is G-22, El Paso Natural Gas Company, with a presentation by Elizabeth Zerby.

MS. ZERBY: The Order before you represents the next step in the allocation process on El Paso Natural Gas Company's system, set forth by the Commission in its May 31st Order. The May 31st Order found that the current capacity allocation methodology on El Paso's system is unjust and unreasonable, and that the quality of firm service had deteriorated and would continue to do so without Commission action.

The Commission thus required that the full-requirements, or FR contracts, be converted to contract demand, or CD contracts, and provided the parties with time

to reach an agreement as to the new entitlements.

Since the parties were unable to reach an agreement, this Order sets forth the methodology to be used by El Paso in determining the appropriate CD entitlements for the FR shippers, and addresses requests for clarification.

The draft Order directs El Paso to use the 5.4 bcf of capacity that El Paso has stated will be available with the addition of the Line 2000 and the proposed power project. Each FR shipper's share of the available capacity will be based on its individual use of the system, but over the latest 12 months.

The draft Order also directs El Paso to reallocate the current aggregate FR revenue responsibility among the FR shippers, in order to give all the parties sufficient time to complete and implement the capacity allocation process, including the FR customer option to acquire turnback capacity and the allocation of receipt-point capacity.

The draft Order defers the effectiveness of the FR conversion until May 1, 2003. In order to alleviate some of the hardship that this postponement may cause to current CD shippers, the Commission will impose partial demand-charge credits to be paid to the CD shippers during the interim period. This concludes my presentation.

CHAIRMAN WOOD: Elizabeth, what about the contracts for the capacity that comes up for renewal or termination between now and May the 1st?

MS. ZERBY: The draft Order would direct El Paso that they could not resell that capacity that would be available for FR shippers.

CHAIRMAN WOOD: Then all the contracts that come up between now and next May would be added to the total that's available to allocate to the FR shippers?

MS. ZERBY: Unless they had a right of first refusal.

CHAIRMAN WOOD: If they kept on with the contracts, but for the contracts that are basically over with, El Paso won't be engaging in any further new contracts to take that capacity back out of the mix?

MS. ZERBY: Correct.

CHAIRMAN WOOD: My only concern on the Order -- and I probably will write separately on it -- is the reallocation of the current aggregate FR revenue responsibility. I do understand the equity arguments for that.

My thought all along with this has either been that we take it all the way and do a full Section 5, which I think we have, for good reasons, rejected or decided not to do, or we, as surgically as possible, address the exact

problem, which is the two classes of service, the FR/CD service.

What we're doing here is also going in now and saying, well, we know that the billing determinants that were agreed upon in the '95 settlement have changed, in actuality, so we're converting those to CD entitlements.

Part of the benefit of the bargain that each of these FR shippers got is that they knew in '95, for the next ten years, I'm paying this much a month for as much service as I can basically get on the pipeline. While we've curtailed the latter part of that promise, it's not unlimited; in fact, it's capped at the real capacity.

I don't know that it's necessary, and, certainly, to me, it's not compelled by our rationale that we've used in this proceeding so far. To then go back and say that we're going to reallocate that pot of dollars among all of you on a new basis, based on these new CDs, I understand the equity arguments to the contrary, but just in the mindset of keeping this as surgical as possible, I probably would not agree with that last half of Paragraph 33.

I think the rest of this is absolutely necessary. I appreciate what the parties did over the summer to try to get this all worked out.

It looks like they got pretty close, but no

cigar, so I'm not giving one out today. I think it was pragmatic to extent the time period that allows for the new capacity to be in there, so that, in fact, unless there are significant changes to the system that we are not aware of by items in this record, there is sufficient FR capacity available to meet FR customers' need with the new project that would be online by next summer.

So that critical 320 mmcf per day is making a difference here. We do need to get this pipeline back on a forward basis to where they're making incremental investment that is user-financed on a going-forward basis, just as all the other pipelines do, so that this very critical piece of infrastructure in one of the fastest growing regions of the country can get back to normal business and do so in a way that disrupts the customer as little as possible, if, in fact, at all.

So, in that minimalist approach, I would just kind of shy away from redoing the revenue responsibility. But, otherwise, I think the Order is a great move forward.

Thank you all for your great turnaround. We had a few meetings in my office on this one.

COMMISSIONER BREATHITT: Let me just add that I like the Order. I've been dealing with this from the get-go, and I think that this is a good balanced approach and a good balanced result.

COMMISSIONER MASSEY: This shouldn't come as any surprise to those who have been following this case for, low, these many months. Once the Commission announced that the system was broken and that substantial changes were in order, and we made various proposals, floated them, strawman proposals for the parties to comment on, and then hoped against hope that the parties could come to an amicable settlement of these issues, they could not.

So we really have no choice but to step up to the plate and make these decisions on our own. That's what we're doing here.

I think it's a good plan. It won't please everyone, but it is a very reasonable solution that I think promotes a very fair allocation of capacity on this pipeline system.

Somebody describe for me, how the FT2 shippers are dealt with in this order. Maybe you did in your remarks, but I missed it.

MS. ZERBY: Basically, the FT2 shippers would remain the way they are now. They remain full-requirements shippers, and they're served off the top.

COMMISSIONER MASSEY: And they're less than one percent of the capacity; I think I'm right about that.

MS. ZERBY: The total is in the range of 30,000 a day.

COMMISSIONER MASSEY: A very small amount, so I commend our Staff for continuing to give us very reasonable recommendations for how to deal with a very thorny matter. I will be supporting this Order.

CHAIRMAN WOOD: Let's vote.

COMMISSIONER MASSEY: Aye.

COMMISSIONER BREATHITT: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN WOOD: Concur.

COMMISSIONER BREATHITT: Madam Secretary, I have gotten special permission to fly to Texas to give a speech, so since this integrates the state of Texas, I would like to cast my vote now for H-8, 9, 10, 12, 13, and 14, and give a nod of acceptance for A-1, which is the strategic plan.

I am going to excuse myself. I've cast my vote, correct?

SECRETARY SALAS: Duly recorded, Commissioner.

COMMISSIONER BREATHITT: My colleagues will stay for the presentations part.

CHAIRMAN WOOD: Good luck. Thank you, Linda.

SECRETARY SALAS: The next matter for discussion is a group of six hydro items. They are H-8, H-9, H-10, H-12, H-13, and H-14, with a presentation by tom DeWitt and Lee Emery.

MR. DeWITT: Good afternoon. I'm here this

afternoon to give you a short overview of the upper Hudson River Basin Hydro Project, H-8, 9, 10, 12, and 13.

After I got through those projects, I'd like to give you an overview of the status of the original 51 projects that we addressed last December at the Hydro Licensing Status Workshop.

That conference was held on December 10th and 11th, here in this room. I have slide presentations for both of these presentations.

(Slide.)

MR. DeWITT: As you can see, the Upper Hudson River Basin Projects are generally located in the east central part of New York State, approximately 40 miles north of Albany on the Sacandaga and Hudson Rivers. Slide 2.

(Slide.)

MR. DeWITT: The Orders before you consist of a Master Order approving an offer of settlement for individual orders issuing new licenses to Erie Boulevard Hydro Power LP for the E.J. West Stewart's Bridge-Hudson River and Feeder Dam projects, and one original license to the Hudson River-Black River Regulating District for the Great Sacandaga Lake Project. Slide 3.

(Slide.)

MR. DeWITT: These licenses provide many important direct benefits for the residents of New York

State and for the developmental and non-developmental resources in the project area.

Licensing of these projects would maintain over 129 megawatts of existing capacity for customers throughout Upstate New York, and provide almost 7 megawatts of power generation, three miles of river below Stewart's Bridge, where only leakage flows of 35 to 50 cfs were present, will not have a minimum flow of between 300 and 350 cfs to enhance fishery resources and water quality.

Whitewater boating that occurs below Stewart's Bridge will have improved procedures and facilities, including new launch and takeout sites. Water level fluctuations in the Great Sacandaga Lake will be moderated, thereby enhancing conditions for fisheries and wetlands and reduce the potential for shoreline erosion.

Additional benefits relating to the operation of the Great Sacandaga Lake include measures to protect against turbine entrainment. The licenses provide for fish passage at Stewart's Bridge, Hudson River, and Feeder Dam, recreational improvements, including whitewater releases, access trails, campgrounds and portage trails. Slide 4.

(Slide.)

MR. DeWITT: The Upper Hudson River Basin license have indirect benefits as well. The offer of settlement filed in April of 2000 was signed by 29 stakeholder groups

involved in the five proceedings, including all major federal and state agencies and numerous non-governmental organizations.

This high level of effort establishes productive working relationships, and fosters good will that carries over into other collaborative licensing cases, we hope, in the future.

Another indirect benefit is that the completion of this settlement will enable the stakeholders in the project area to devote more time to the remaining cases, such as Oswego and School Street Projects, which are also on the Commission's original list of the oldest pending applications.

Finally, the number of projects on the Commission's infamous list of the 51 oldest pending applications will be reduced by three. That leads me to the next segment of my presentation.

(Slide.)

MR. DeWITT: As I said earlier, the Hydro Licensing Status Workshop was held last December 10th and 11th.

(Slide.)

MR. DeWITT: The purpose of the Commission-led workshop was to focus on the next steps for moving the 51 longest pending licensing proceedings, that is, those five

years old and older, forward.

The December workshop had approximately 90 participants from all stakeholder groups.

(Slide.)

MR. DeWITT: Since the workshop, 11 cases have been completed, and with action today on three of the Upper Hudson River Basin Projects, 14 cases will have been completed, leaving 37 of the original 51.

Five additional cases can be completed this year, if agencies meet their current workshop commitments.

(Slide.)

MR. DeWITT: Moving forward, OEP staff has met the commitments made in the December workshop, and we continue to work with stakeholders to complete all of the other necessary NEPA documents and to resolve issues resolving Clean Water Act Section 401 conditions and Endangered Species Act consultation, Coastal Zone Act certification and agency conditions pursuant to the Federal Power Act.

In closing, you will see that we are now planning our next review of the five-year-old-and-older cases at a subsequent hydro status workshop scheduled for November 8th, 2002. I'll be happy to take questions.

MR. DEWITT: The day before or the day after that, we are also planning to do one of the outreach sessions here in D.C. with the Commissioners, do it after, this would be the second day.

CHAIRMAN WOOD: Are there any new ones that have become five years old in the last year?

MR. DEWITT: There will only be three.

CHAIRMAN WOOD: Okay. Down 19 up 3, that's definitely directionally correct. This is great. As I think my colleague Nora said more eloquently, we all love settlements. Sounds like this one had a lot of win/win benefits for the customer, the licensee and the affected parties up there. That's what we like to see. We appreciate the presentation on it.

COMMISSIONER BROWNELL: I think this also includes what I consider to be an important policy change on behalf of the Commission. I thank the Staff for being so flexible. This has been the source of a lot of conversation in the building, and that is that we are now agreeing, as a matter of policy, to include ADR provisions in the license and articles. Is that correct?

MR. DEWITT: Yes.

COMMISSIONER BROWNELL: I know that represents many challenges in terms of our ability to actually deal with those whom we don't have authority over but I think it

represents a strong message to people that we do value settlements and hopefully, with this provision, we'll actually be able to retire more or not create a backlog for the future to deal with. I appreciate that.

And I also know the Staff actually drafted some, if not all of the licensing articles which perhaps moved this forward in a way that the parties found helpful, maybe not always appropriate but worked this time I guess so thank you for doing that. You need extra work, right? Thanks.

CHAIRMAN WOOD: Do we anticipate that those ADR issues would come to this Commission for resolution or would be dealt with through an outside process administered by the licensee or both?

MS. EMERY: Typically there is provision in the settlements for the groups themselves to arrange for a dispute resolution, and then resort to the Commission for their assistance. It is usually further down the line, if it becomes necessary.

CHAIRMAN WOOD: The ADR shop is small but pretty potent, so I'm just trying to plan ahead if we need to put more resources there, I'll be guided by what falls out of this process. Great. And we need to vote. Linda's voted.

COMMISSIONER MASSEY: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN WOOD: Aye.

Thank you all.

SECRETARY SALAS: The next item is a presentation to summarize and highlight some of the certificate items adopted by the Commission in the Consent Agenda. Its a presentation by Berne Mosley and Rich Hoffman.

MR. MOSLEY: Good afternoon, Chairman Wood, Commissioners. Berne Mosley. With me is Rich Hoffman. We work for FERC's Office of Energy Projects. Today's power point presentation will provide a short overview of the 12 certificate consent items that involve gas infrastructure expansion.

(Slide.)

This presentation should be available on FERC's Web site this afternoon. I'll begin by reporting on the total capacity miles of pipe and compression involved in these projects. And then I'll discuss these individual projects bring to individual regions of the U.S. Go to slide 2.

(Slide.)

You can seen ten projects actually involved final certificates. They are authorized today, that's 2,252 MCCfd of gas, 759 miles of pipe for 110,600 horsepower. As far as the preliminarily approved projects or the PDs today, two projects of 226 MMCfd capacity, 39 miles of pipe and 20,000 horsepower of compression.

(Slide.)

We start looking at the benefits of this new infrastructure by region. First start off with the Northeast. I'm going to go by the items themselves. C-1, Islander East, C-4, Millennium, C-14, the Iroquois ELI project and the C-5 National Fuel Beech Hill storage project.

The first three projects would significantly increase the amount of capacity to the New York City area market while the last would ensure that there's storage in degree in the Beech Hill Storage Field which is located in New York.

(Slide.)

Go to the Southeast Item C-3, the Southern Expansion Project, and C-17, Southern, the SCG project. The first project, the Southern Expansion Project, provides increased service to municipalities and units including 2630 megawatts of new power at new and existing power plants.

The C-G project is a new pipeline which would increase service to growing markets in Georgia and South Carolina, while providing an additional outlet for the regassified LNG.

(Slide.)

For the Midwest we look at item C-13, Missouri Interstate, that's the oil conversion project and C-8

Northern Natural Beatrice Compressor. The oil conversion project has a Mississippi River crossing that gives markets in the great St. Louis area and has access to the interstate grid. All the Beatrice Compressor project provides incremental capacity to shippers and to all the full volumes associated with Northern Natural's upcoming project max are subscribed.

(Slide.)

Look at the Mid-Atlantic. We have the Trenton Woodbury project, Item C-7. The Trenton Woodbury project provides additional delivery flexibility for two existing customers in meeting gas distribution needs, as well as serving a new 1,180 megawatt power plant in Bucks County, Pennsylvania.

(Slide.)

We go to the Northwest. We have the Rockies Expansion project the Northwest pipeline. What this creates, it creates additional northerly flow capacity to serve the Pacific Northwest and mitigates the needs for Northwest Pipeline to involve OFOs and other types of remedies to compensate for shortfall in displacement capacity.

(Slide.)

Finally, we'll look at the international impacts, the Georgia Strait Crossing on the Kinder Morgan export.

Georgia Strait involves Canadian Export, while the second Kinder Morgan involves Mexico. Both of these will further enhance the North American Gas grid by providing additional supply choices to consumers .

In closing, I would like to point out that these projects representing well-coordinated and original work effort on the part of Staff from OEP, OGC, OMTR and of course the accountants and the Executive Director's office.

I'll now turn the mike over to Rich Hoffman who would like to follow up on this last point.

MR. HOFFMAN: Thank you, Berne.

Mr. Chairman, Commissioners, drawing that whole crowd of people together that worked on these would be a huge undertaking. A couple of them though I wanted to point out specifically because they had such a high involvement by the public that working on them took a huge amount of coordination by the teams. The first is Millennium, which I would point out also is certainly our oldest major certificate case, if not the oldest certificate case on our books.

And the crowd that worked on that was Jennifer Kerrigan, Mike McGeehee and Joel Arneson from OGC. Then on Islander East, Joanne Walkholder, Jeff Wright and Carolyn Vanderjack were part of that team.

On Georgia Strait primarily it was Laura Turner

and Selma Lynch and on FGT, Lauren O'Donnell, Jack Donohoe, and Cecilia Desmond.

Then finally on the hydro projects on the upper Hudson there, Lee Emery and John Clements were involved in those cases. I just wanted to recognize them. Thank you.

CHAIRMAN WOOD: There's so much in here I don't know where to start. I do have to say I had, I can't call it the pleasure, but the opportunity among all things that I'm doing to look over the Final Environmental Impact Statement for the Islander East Project which is probably the more difficult one on this agenda I think. I just want to applaud the staff for the thoughtful way that particularly all the individual correspondence that was handled in the draft.

I think there's always going to be second guessing and there's always going to be the better idea, and I think honestly as I read through both documents, the normal EIS and then the letters, my mind was, why can't we do that, and then you get through all of it and quite frankly there was one answer.

There are environmental needs, there are reliability needs that are sometimes in conflict and I think the balance here was the appropriate one. I know it's not necessarily a popular one. I think it's worth noting, as I think our Order does, that with the ongoing state

discussions in Connecticut about new infrastructure, we acknowledge that this is not the last thing that these applicants will have to do before they can construct.

There are a lot of state issues to be resolved.

So our moving forward today envisions that in fact the state will have additional issues to do and if they're bound by their moratorium on those issues, certainly that will control. I do hope they can work through those. I know we've got Randy Mathura participating in the governor's task force up there and hope we can be of some constructive use to the State of Connecticut because energy needs do not disappear with increases in population; they grow.

So I thank you all particularly thank in these capital distressed times, I appreciate that the applicants here have put forth and have stuck with their proposals to beef up the as infrastructure. It is really important to stay ahead of the curve. I appreciate the fine role that Staff plays in doing that as well. Keep up the good work.

MR. HOFFMAN: Thank you.

CHAIRMAN WOOD: We've already voted these on the consent batch and that was a big batch on today's agenda and it doesn't just happen so thank you all for all the heavy lifting.

COMMISSIONER MASSEY: I wanted to comment on

Islander East, which was a controversial proposal, but it seemed to me, in looking at the case, the applicants made the case for the pipeline, they had pretty strong market support for it. There was a very good argument that another pipeline source was needed for that area. So I was persuaded on balance that it was a good project.

The other thing that persuaded me, and I agree with Chairman Wood, was the very thoughtful nature of the environmental studies that we did. I got the sense that we had given this a very hard look, a very thoughtful look, and had considered a lot of different options and a lot of different arguments.

The bottom line is pipelines have to go somewhere if they're necessary. And it seems to me that both the applicants and our staff did a very good job of moving this in the right direction and finding routes that were reasonable routes for this project in particular and for the other projects too.

I wanted to commend our staff for the thoughtful approach and express my support for these items.

COMMISSIONER BROWNELL: It's hard to add to such eloquent statements other than say I appreciated the thoughtfulness of the comments from the people who were affected by these decisions. I think they recognize that we have very difficult choices to make. I appreciate the

substance of their remarks, and want to encourage them to continue to participate in the process. And while you might not always get the answer you want, all of their concerns were seriously considered.

More importantly, I think at a time when we spend most of our days dealing with things that don't work and problems, this is illustrative hard work that goes on in the building with many, many people who are involved that are really building for the future in the way we're trying to do as we deal with other problems.

I thank you for your work. I hope that we can have kind of more victory stories like this one because I think it's important to remember that there are many things that happen in this building and many of them are really moving I think the infrastructure necessary for the economy in this country forward in a positive way, so thank you.

MR. HOFFMAN: Thank you.

CHAIRMAN WOOD: Good presentation. Thank you all very much.

SECRETARY SALAS: The final item for discussion this morning is A-1, the Commission's strategic plan.

CHAIRMAN WOOD: One year ago next week, we voted I think for our first time as a body, we voted on a strategic plan, we voted on a document that looks a lot like the one in your folder today. It has changed in just a few

ways, primarily to accommodate that in fact in this current operating bilateral that starts in about two weeks, that we will actually be mapping back each of the costs which are primarily at this agency, the time that employees spend, but also certainly travel and overhead, etc., mapping these costs back to specific categories under this strategic plan, so there was some duplication of our goals. Those have been synthesized and merged back together. There were significant changes to goal four, which is our administrative goal, some of which were made to conform our internal governance document with requirements. In fact, this document that we use is also compliant with a number of government regulations for strategic plans.

I would venture that the difference is that this will actually be used, it won't be just something filed, as perhaps another agency may do. We are going to actually use this to tell the world what we do, to tell the internal people that work here what we're about and then importantly manage accordingly, manage the budget and manage the allocation of employees to these different strategies as our priorities and goals support. So I just want to put this forth for your approval.

Any questions or thoughts or feedback or changes?

COMMISSIONER BROWNELL: I know that there were endless meetings particularly around the budget issues this

summer. I thank you for not including me in that. I welcomed the thoughtfulness with which you've approached it. First of all, I like the idea of a plan that's workable and hope we all kind of carry it around and see if we are achieving our strategic objectives, but I think it's critically important that we do map it back to the budget because I think we've had very generous appropriations as we challenge our new responsibilities. I want to be able for all of us to day, we earned that and there are very positive achievements as an outcome of that support.

I thank you and I think it is fine-tuned in a way that reflects what are sometimes increasing responsibilities, certainly increasing challenges. I hope we use it as a working document because I think it will help us to stay focused and disciplined so thanks.

COMMISSIONER MASSEY: I've become convinced that this is in fact a working document so I've become more and more interested in it. It's not just a statement of platitudes, although we are capable of that I suppose.

(Laughter.)

COMMISSIONER MASSEY: Platitudes are good but I think this is a workable plan that we can achieve. It has my full support.

CHAIRMAN WOOD: Great. Thank you all very much. I do carry this around in laminated form. When I give a

speech usually I just bring that with me to let people know what we're about saying what's FERC do. I usually bring a couple of extra copies of the laminated form to hand out. I've actually had people come up and say what are you reading from. So this tells our story. I appreciate, as things come up, my intention is to bring it up each September for renewal and changes that match the budget that will go into effect in the subsequent month in October 1. But as their thoughts are throughout the year, this is certainly not the only time we can look at this.

So I guess we'll vote on it.

COMMISSIONER MASSEY: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN WOOD: Aye.

Meeting adjourned.

(Whereupon, at 1:05 p.m., the Open Session of the Commissioners' Meeting was adjourned.)