UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Preventing Undue Discrimination and Preference in Transmission Services	**)** **)** **)**	**Docket No. RM05-25-000** **and** **Docket No. RM05-17-000**

PREPARED COMMENTS OF SANDRA L. JOHNSON,
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(October 12, 2006 Technical Conference)

Good morning Mr. Chairman and Commissioners. My name is Sandra Johnson and I am the Director of Transmission Asset Management for Xcel Energy Services Inc. ("Xcel Energy"). In my position, I oversee transmission planning for the Xcel Energy utility operating companies, which own and operate approximately 17,500 conductor miles of transmission facilities 69 kV and above in ten states. We expect to invest nearly a billion dollars in new transmission over the next five years. I appreciate the opportunity to appear before the Commission today to discuss FERC's proposed OATT Reforms on Regional Transmission Planning. My comments today primarily reflect the positions taken by Xcel Energy in our initial and reply comments submitted in this docket.

Xcel Energy Inc. is a member of Edison Electric Institute (EEI) and we have generally supported the positions EEI has taken. On behalf of EEI, I would like to note that EEI supports greater regional and local coordinated transmission planning. EEI believes the Commission's proposals to require all utilities to develop coordinated planning proposals consistent with the NOPR will, in many instances, serve to formalize the widespread voluntary and regional

planning already established in much of the country through RTOs and ISOs as well as collaborative transmission planning by non-RTO/ISO utilities. Accordingly, EEI asks the Commission to recognize and respect local and regional differences in establishing principles for coordinated planning and provide sufficient flexibility for the implementation of those principles while allowing utilities to continue to meet local and regional concerns. EEI's position is that the coordinated planning process can work only if all industry participants, including municipal, cooperative and other public power entities, and in particular transmission-owning non-public utilities, have a reasonable opportunity to be involved. Furthermore, it is critical that the Commission clearly establish the principle that, with this process, it is the transmission provider who is responsible for the final decision concerning the development of a transmission system plan for transmission facilities to meet the needs of its customers and interconnected utilities. EEI believes the Commission's final rule must recognize that it is the transmission provider, and not the other participants in the planning process, who is responsible for maintaining system reliability, obtaining approval of the state utility commission for transmission construction and siting proposals, complying with ERO and RRO requirements and constructing and operating the transmission system. In sum, EEI's position is that the Commission's policy should ensure that accountability and authority are properly aligned in the planning process.

The remainder of my introductory oral comments reflect the views of Xcel Energy. I will address only some of the questions listed in the technical conference notice. My prepared written statement, which has been submitted for the record, addresses all the questions.

My comments today, as well as the positions stated in our initial comments and reply comments, reflect the fundamental characteristics of our service territory. Xcel Energy Inc. is

one of the few utilities with operations in three distinct regions and both the Eastern and Western Interconnections: the Northern States Power Companies (NSP) operate in the Midwest ISO; Southwestern Public Service Company (SPS) operates in the Southwest Power Pool (SPP); and Public Service Company of Colorado (PSCo) operates in the Western Electricity Coordinating Council (WECC). Historically, the planning practices in the three regions have been quite distinct.

Because of these facts, Xcel Energy is quite supportive of the Commission's proposed reforms that improve transparency, reduce ambiguity, and increase consistency in transmission planning. Our views also reflect the fact the Xcel Energy operating companies are both transmission owners and significant transmission service users. In particular, power purchases from third party suppliers make up about twenty percent of NSP's system resources and nearly half of PSCo's system resources. Transmission enables delivery of generation supplies to serve our loads, and it enables more competitive wholesale energy markets. The key is getting the plan right.

Question: What is the appropriate geographic scope for effective planning region or sub-region?

In response to the Commission's query on appropriate geographic scope, Xcel Energy supports a geographic scope of regional planning consistent with broad areas of interconnected operations, e.g., WECC, Midwest ISO, and SPP. These geographic areas are large; however, the organizations conducting the regional planning currently have the core system and infrastructure knowledge to develop the regional plans. The organizations should be able to implement appropriate mechanisms to meet the Commission's eight proposed guidelines.

Xcel Energy believes sub-regional planning is also critical and should not be subjected to a predetermined geographic scope such as multi-state or that geography covered under a section

215 Regional Entity. Sub-regional processes should be given deference to accommodate the needs or requirements of states and parties that participate in such sub-regional processes. Sub-regional processes may be initiated to comply with state regulatory requirements, state resource planning or transmission planning obligations, reserve sharing group requirements, or agreement among the parties that participate in such sub-regional initiatives. The sub-regional plans can then be incorporated into the larger regional plans.

For example, the Midwest ISO footprint today covers portions of the former NERC sub-regions of MAPP, MAIN, and ECAR. Before the Midwest ISO, the utilities in MAPP engaged in extensive regional planning through MAPP. Xcel Energy continues to participate significantly in two sub-regional planning groups within the MAPP region, the Northern MAPP–Sub-regional Planning Group and the Missouri Basin–Sub-regional Planning group. Together these two groups cover a geographic area encompassing North and South Dakota, Minnesota, western Wisconsin, parts of Montana and the Canadian province of Manitoba. These groups meet frequently for the purpose of identifying and communicating needs for transmission studies and for coordinating the transmission planning within and between the groups. Depending on the study need (developing state plans, local studies or major interstate transmission lines) and geographic scope, interested parties from one or both groups may participate in the transmission planning analysis. They provide the flexibility of defining the geographic scope of the analysis based on the need.

Additionally, not all of the MAPP transmission owners or their transmission systems are within the Midwest ISO footprint. Consequently, due to the historical system design and the nature of our interconnections, we have additional reasons to plan on a sub-regional basis due to these factors, rather than using only the Midwest ISO regional processes. Xcel Energy's reply

comments and Mr. Kaul, from Great River Energy, explain how important this is in more detail using the Minnesota-based sub-regional planning process, known as CapX 2020 as an example.

Are there specific criteria that can be developed to define the scope and frequency of the congestion studies proposed in the NOPR?

Moving on to the question of specifying criteria for the scope and frequency of congestion studies, Xcel Energy supports no more than a two-year frequency. These studies are very resource and time intensive. A two-year frequency is sufficient to identify changes in congestion patterns, and this frequency would allow better consideration of whether observed changes are one-time anomalies or emerging trends.

As to scope, Xcel Energy believes there are two issues: geography and study sufficiency. The geographic scope of congestion studies should be consistent with the regional and sub-regional geographic areas defined in the planning processes and should incorporate known and measurable transmission usage data from neighboring regions, because congestion or relief in a regional neighbor's system can cause congestion or relief in the regional area being studied.

Congestion studies ought to consider historical transmission loading relief (TLR) or other curtailment records; transmission service requests that have been refused on OASIS; and in an RTO or ISO, possible projections of potential future benefits estimated by performing regional security constrained production cost analyses, which can be compared to an unconstrained production cost analysis. This is likely to be an evolving field of study, since most utilities have little experience today planning transmission by comparing the benefits of reduced congestion (i.e., lower energy costs) to the cost to add transmission infrastructure to relieve congestion.

To be effective, such studies should accommodate input from a variety of constituencies, including those that are non-FERC jurisdictional. This is of particular interest to Xcel Energy,

since many of our neighboring utilities are non-jurisdictional cooperatives, municipal power agencies or federal agencies. As I mentioned earlier, we have a long history of coordinated planning with these neighbors. One challenge the proposed planning process will need to reconcile is when non-FERC jurisdictional entities elect to partially participate or refuse to participate. Since we understand only FERC jurisdictional entities would be required to participate under the proposed rule, the regional and sub-regional plans may not reflect the experiences of all entities in the region, or include all available data.

How should the planning obligation be coordinated with state processes?

Before addressing the third question in the Commission's notice, I would like to next address the question concerning coordination with state processes. We believe it is important to draw a distinction between state resource planning obligations and state transmission planning obligations. Many of the states where Xcel Energy utilities operate have resource planning procedures, which are oriented at meeting future electric supply needs. As such, these processes require consideration of transmission resources in conjunction with new generation resources to arrive at a least cost solution to serve retail customers. However, they may be separate from transmission planning processes. For example, Minnesota has both a utility-specific biennial resource planning process and a separate coordinated transmission planning process. Minnesota's processes also require consideration of supply and demand side resource solutions to determine if proposed transmission is needed.

Such state resource and transmission planning processes should be informed by regional and sub-regional planning initiatives. Xcel Energy believes the regional planning process provided by the final rule must account for the needs of the various states' processes. We

believe the Commission's proposed reforms can and will allow for state resource planning requirements to be incorporated.

Is an independent consultant necessary to facilitate planning?

Xcel Energy supports FERC adopting the eight planning guidelines and believes those guidelines will increase transparency and openness and encourage broader participation. In the RTO/ISO regional planning process like MISO, an independent consultant is unnecessary, since a Commission-approved independent entity is conducting the regional transmission planning process. In non-RTO/ISO regions like WECC, Xcel Energy believes that requiring an independent consultant is unnecessary and burdensome. A consultant could not provide the same kind of independent oversight that an RTO can, since a consultant will not have the independent system knowledge that an RTO or ISO has.

If the Commission adopts the proposed guidelines, the scope and sufficiency of regional plans should improve. These reforms will improve accessibility to information in developing the regional plans. The source data needed to formulate the regional plans will come from the transmission owners and users in the designated region. Having a mandatory independent consultant will slow the planning process down, as the consultant would have to work with everyone's source data to understand the history and forecasted assumptions to facilitate the plans. The time required to get up to speed with the knowledge of regional planning participants would cause an unnecessary delay.

What are some effective mechanisms for safeguarding confidentiality while permitting meaningful access to transmission information?

Moving to the issue of confidentiality, Xcel Energy has engaged in regional planning with much success. Concerns of confidentiality are two-fold: protecting confidential

information and compliance with the Order 2004 Standards of Conduct rule. The Commission's rules mandate separation of functions and therefore, some confidentiality safeguards are naturally required, at least for jurisdictional entities. Both the Midwest ISO and the Colorado Coordinated Planning Group have used non-disclosure agreements to protect the various interests in the planning process in the past, and Xcel Energy believes use of non-disclosure agreements will facilitate planning.

For example, in the data collection phase, load growth or generator connection plans can be considered confidential. However, once the information is accumulated, the results should be provided in an open and transparent environment with the assumptions and inputs disclosed.

If an open season requirement is added for large new transmission projects, what conditions or limitations should be associated with it?

In response to the question on open season requirements, Xcel Energy believes that the goal of an open season requirement for large new transmission projects should be to ensure that all parties' needs for transmission service that could be addressed by a project are considered in the planning process and incorporated into the ultimate design of the project. The end result of this process does not need to mandate the solicitation of joint ownership by all potential beneficiaries or by other potential investors.

Xcel Energy believes ownership of new transmission facilities and the rights to use them should not be coupled together. The rights to the capacity that are created by a project should be secured by purchase of transmission service, even where a party has project ownership. Ownership should provide transmission service revenue, not usage rights.

By analogy, load serving entities and electric generators don't acquire ownership in interstate natural gas pipelines to serve their gas or electric fuel delivery needs: they buy

transportation service under a tariff. Ownership and use are separate. There is no reason to mandate a different model for electric transmission.

Can the proposed regional planning requirement achieve its goals if the participants in the regional planning process have not achieved agreement among themselves on appropriate cost-allocation issues? If not, what can be done to encourage the development of such cost allocation agreements among regional planning participants?

In addressing the next question on cost allocation, several RTOs have developed provisions in their regional tariffs for new transmission facilities in which cost allocation through rates is independent of who owns facilities. This model is consistent with the "separation of ownership and use" I just discussed. This type of model also sends out the appropriate signal to all entities to seek out the least-cost solutions when plans are developed. While there are concerns that such cost allocation provisions will encourage over-expansion of the transmission system, we believe independent regional oversight can also mitigate this concern. Given the recognized need for new transmission, and the difficulty in actually siting and constructing it, the likelihood of over-expansion seems rather remote.

In the absence of an RTO, or other regional organization, cost allocation remains an issue that must be worked out on a project-by-project basis. While this can be problematic in some cases, most existing regional transmission was built under this model. Clear models for transmission owners to recover their costs in a timely fashion at both the state and federal level will facilitate agreement among parties on cost allocation. The Commission’s final rule on transmission incentives also helps provide additional regulatory certainty. Where the parties cannot agree, the Section 205 rate filing process described in the incentives rule provides a mechanism for a proposal to be filed and the Commission to decide.

What is the appropriate role for demand response in planning?

Finally, in response to the last question concerning demand response, Xcel Energy and its operating companies have played a major role in advancing and relying on demand response and demand-side management to reduce the need for new generation and associated transmission. Currently, the Xcel Energy utilities have nearly 1,400 MW of controllable load and 380 GWhs of conservation in our energy portfolio. More specifically, in 2006 the Xcel Energy utilities have approximately 1000 MW of air conditioning load that can be cycled to reduce demand during the summer cooling season, and we curtail air conditioning load routinely during the cooling season.

In addition, our planning studies typically use load forecasts that account for the impact of demand response programs evaluating the reliability and integrity of the transmission grid. Public utilities with demand response programs have and will continue to rely on demand response when forecasting load for the transmission planning process. Therefore, Xcel Energy does not foresee that any change in the OATT as necessary to address demand response in the transmission planning process.

Conclusion

In summary, Xcel Energy thanks the Commission and staff for their leadership in continuing to improve transparency and facilitate regional planning. That planning is critical to meeting the future needs of electric consumers. We also thank the Commission and staff for inviting us to participate in this technical conference. I look forward to answering any of your questions.