

1

10:10 a.m.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

APPEARANCES:

COMMISSIONERS PRESENT:

- CHAIRMAN PAT WOOD, III, Presiding
- COMMISSIONER LINDA KEY BREATHITT
- COMMISSIONER NORA MEAD BROWNELL
- COMMISSIONER WILLIAM L. MASSEY

SECRETARY MAGALIE R. SALAS

ALSO PRESENT:

FRANK M. SMONSKEY, Court Reporter

1 PROCEEDINGS

2 CHAIRMAN WOOD: Good morning.

3 This meeting of the Federal Energy Regulatory
4 Commission will come together to consider matters which
5 have been duly posted in accordance with the Government in
6 Sunshine Act for this time and place.

7 Please join me in a pledge to our flag.

8 (Pledge of Allegiance.)

9 CHAIRMAN WOOD: Good morning. We will start,
10 Madam Secretary, with the consent agreement first.

11 SECTARY SALAS: Good morning, Mr. Chairman, and
12 good morning, Commissioners.

13 The consent agenda for this morning is as
14 follows:

15 Electric: E-2 through E-7, E-10, E-11, E-13,
16 E-14, E-16, E-17, E-20 through E-22. E-25, E-26, E-28,
17 E-29. E-31, E-35, E-37 through E-40 and E-44.

18 Gas: G-1 and G-3 through G-10.

19 Hydro: H-1 through H-4.

20 Certificates: C-1 through C3 and C-5 through
21 C-9.

22 The specific descriptions for these items as
23 follows: E-21, Commissioner Brownell is recused.

24 E-28, Commissioner Brownell is concurring.

1

E-31, Chairman Wood is not participating.

1 C-6, Commissioner Brownell is concurring, and
2 Commissioner Brownell will be voting first this morning.

3 COMMISSIONER BROWNELL: I vote aye noting the
4 recusal from both E-18 and E-21 and the concurrences for
5 both E-28 and C-6.

6 COMMISSIONER MASSEY: Aye.

7 COMMISSIONER BREATHITT: Aye.

8 CHAIRMAN WOOD: Aye, except I'll abstain on
9 E-31.

10 Before we move forward, I would like to mention
11 today that the Commission is also working on an order that
12 we intend to issue later today which formally opens a
13 fact-finding investigation over whether any entity
14 manipulated electric and natural gas prices.

15 I just wanted to make that announcement, and I
16 appreciate the work of staff and colleagues on scoping this
17 important investigation to give some certainty as to what
18 may or may not have happened in the past number of months,
19 particularly out west and really focus on the numbers and
20 empirical data that exists or may have to be created by us
21 in our investigation. So I appreciate the hard work and
22 pulling that all together.

23 COMMISSIONER MASSEY: If I could comment briefly
24 on that, I think this come as no surprise because you had

1 indicated publicly that you would urge the Commission to

1 open such an investigation into possible manipulation of
2 power prices out west, and I think that's the right thing
3 to do, and I wanted you to know that I support your
4 efforts.

5 I also wanted to on a somewhat related matter
6 just take this opportunity to say how much I respect your
7 leadership of this Commission and how much I've enjoyed
8 working with you over the past eight months.

9 I also just would like to say publicly that I
10 consider you to be one of the most public spirited
11 officials that I have dealt with in my 22 years in
12 Washington, and I just wanted to make a record of that.

13 CHAIRMAN WOOD: You are kind. Thank you very
14 much. That's too nice.

15 COMMISSIONER BREATHITT: The issue that Chairman
16 Wood just announced I believe has arisen from the
17 discussions that you had with the Senate Energy Committee.

18 CHAIRMAN WOOD: Correct.

19 COMMISSIONER BREATHITT: And I agree with that
20 approach.

21 As the chairman mentioned, we're still working on
22 the exact language, but we have all agreed in spirit to
23 move forward with a fact-finding investigation into the
24 prices of natural gas and electricity.

1

So I think that is a good move. I agree with

1 that.

2 I would also like to align myself with
3 Commissioner Massey's comments regarding you. You have a
4 full vote of confidence by me, and we're all going at
5 breakneck speed these days with a lot of very important
6 issues, and keeping everything going is a challenge among
7 all the other distractions that we've got.

8 But you are doing a great job, Pat, and if this
9 is a vote of confidence from me you've got it.

10 CHAIRMAN WOOD: It's going to look like I've
11 cooked this up, a little pep squad. I'll tell you what:
12 The hard work is yet ahead. So save those happy thoughts
13 for later days and slice and dice and all the fun stuff.
14 But thank you both very much. Is there anything to add on
15 the inquiry?

16 COMMISSIONER BROWNELL: I should try and take a
17 shot at you.

18 I would simply like to say I'm glad you and thank
19 you for putting this on a fast track. I think it's
20 important to focus on the facts. I think an empirical
21 exercise is what is called for.

22 We need to bring certainty to this market, both
23 in the west and throughout the country.

24 We need to bring certainty for consumers, and

1 frankly we need to bring it to the market participants who

1 have been damaged by the lack of information and
2 understanding.

3 So I'll be glad that we can complete this and
4 hope that we can devote a lot of resources to it so we can
5 move on to the next phase.

6 Thank you.

7 CHAIRMAN WOOD: Great.

8 COMMISSIONER BROWNELL: And I really like you,
9 Pat.

10 CHAIRMAN WOOD: I could be a mean baked potato.

11 All right.

12 Linda, I know you had something.

13 COMMISSIONER BREATHITT: Yes.

14 I just wanted to note since we just voted on two
15 mergers, that we just voted on two mergers. One was the
16 Reliant-Orion merger, and the other one was approving
17 changing control of Portland General to Northwest Natural
18 Gas, which is a LDC in that area of the country.

19 So we usually have some fanfare when we do
20 mergers, but these were on the consent agenda as there were
21 no issues involved that caused them to arise with more
22 discussion at the bench. So I just wanted to note that
23 that happened today.

24 CHAIRMAN WOOD: Great. I share your sense of

1 moment about those and appreciate you wanting to make that

1 public.

2 SECRETARY SALAS: The next item on your agenda,
3 Mr. Chairman and Commissioners, is under A-1. This is
4 agency administrative matters, and we will hear a
5 presentation by the staff of the chief information officer,
6 Elizabeth Taylor and Andy Hinz.

7 MR. HINZ: Good morning.

8 CHAIRMAN WOOD: Good morning.

9 MR. HINZ: I want to make sure a presentation
10 comes up first before I start.

11 Good morning again. My name is Andy Hinz. I
12 work in the CIO office here at FERC. Before I get started,
13 I would like to mention a few people who made great
14 contributions to what I'm about to talk about with you.

15 On my left here is Elizabeth Taylor, also in the
16 CIO office.

17 To my right is Tom Rieley, again also in the CIO
18 office and he works on my team.

19 They are the main project leads on the FERRIS
20 project or the RIMS technology refreshment, and they put a
21 lot of effort into it and done a great job.

22 I would also like to mention people from the
23 public focus group and the staff focus groups that gave us
24 input into making FERRIS an improvement over the current

1 RIMS system.

1 I would also like to mention staff people in OSEC
2 especially that worked with us closely, Linda Mitry
3 especially. I think she is here today too sitting behind
4 Magalie there. She helped us out a lot. Anyway, I'll have
5 to dispense with that and move on.

6 Basically, our current RIMS3 document management
7 system or imaging system is over five years old and is in
8 need of technology refreshment or technology upgrade.

9 So that's what this is all about.

10 The name of the new system is FERRIS. There was
11 a contest. People submitted names. And the winner is
12 FERRIS, which is, as you can see from the slide, Federal
13 Energy Regulatory Records Information System, and there is
14 a logo. It's kind of a Ferris wheel of documents. That's
15 FERRIS.

16 CHAIRMAN WOOD: I got to pick the name.

17 COMMISSIONER BROWNELL: You did?

18 CHAIRMAN WOOD: I did.

19 COMMISSIONER BROWNELL: I don't believe I was
20 consulted.

21 CHAIRMAN WOOD: I'm sorry. I picked that one
22 myself and that was the one.

23 MR. HINZ: We could probably open up voting
24 again.

1

CHAIRMAN WOOD: Hearing denied.

1 MR. HINZ: First just some statistics about how
2 many documents we are handling right now.

3 You can see almost 100,000 documents we scanned
4 this past year. A little over 3,000 documents were
5 e-filed, and the graphics just show that those numbers
6 overtime are going up and thankfully the number of
7 documents e-filing is going up a little bit faster than
8 what we received in paper.

9 The last bullet just points out that when people
10 come to our website most of the time they go to RIMS or
11 CIPS, or one of the other systems we're replacing. So it
12 is an important system for the public.

13 The goals that we were abiding by throughout this
14 project:

15 We wanted to consolidate redundant systems.

16 There are actually six systems that we are going
17 to be replacing. People know about RIMS and CIPS,
18 especially. But there are a couple other systems that we
19 are also folding into this new system.

20 We wanted to improve any search capability. The
21 current system is going to be able to combine text search
22 along with the kinds of searches you do with RIMS now. So
23 that's better functionality for staff and the public.

24 We want to make it easier to view and print

1 documents, make it faster especially.

1 We want to improve the reliability of the
2 system.

3 Also one of our design goals was to use industry
4 standard components.

5 For example, the search engine is a product
6 called Verity. The document management system is a product
7 called FileNet. So we are using industry standard
8 components and plugging them together.

9 Some milestones for the project so far:

10 We surveyed industry for best practices and other
11 information back in the spring of 2000. We did an RFP in
12 the summer of 2000. We awarded the contract to ACS in the
13 winter of 2001.

14 I would like to point out that so far ACS has
15 done an outstanding job and we are happy with their work
16 and the ASP support contract that is onsite here -- Signal
17 -- has been working well with ACS in integrating the new
18 system with other current systems here. So I would like to
19 mention both of those vendors and thank them.

20 Also in the summer of last year we did some
21 improvements to the current RIMS. We upgraded the
22 communication lines and did some improvements to the
23 servers that support it.

24 I will mention the last bullet. We did

1 proof-of-focus groups with both the public and the staff.

1 So we're hoping that what people start to see soon is the
2 result of their input and feedback and people will be happy
3 with it.

4 Beth did a demo for staff yesterday and is going
5 to be doing another one tomorrow. So that's what is
6 happening over the next of couple days.

7 Later this month we plan to do a demo for the
8 public. I think we are shooting for February 20, but we
9 need to work out the details of that a little bit, just the
10 location and everything.

11 We also want to meet back with the focus groups
12 and show them what actually came out of their input. So we
13 hope to do that in March.

14 We hope to roll out the new system in April after
15 making it available to public to test drive during the
16 month of March.

17 So hopefully there will enough time for people to
18 see what's coming before it actually is here as a fact.

19 CHAIRMAN WOOD: So this is really the public kind
20 of an announcement to kind of plan your spring break to be
21 surfing on our new FERRIS wheel, huh?

22 MR. HINZ: Yes.

23 And I was going to mention this later on, but one
24 thing to do now is go to the FERC website to the new search

1 that we put out last fall, and that search is a lot like

1 how the new one is going to be.

2 So even now you could get a flavor for how the
3 new system is going to work as far as searching.

4 Okay. I'll try to move quickly here through the
5 rest of these.

6 What are the key benefits? Obviously one system
7 makes it easier for us and for the public. You don't have
8 to go check CIPS and RIMS and Docket Sheets. Hopefully,
9 you can go one place and get the information you need.

10 We are going to have a general search screen
11 which should be kind of simple, easier to put in a docket
12 number or date range, and you just press the Enter key and
13 you get your search back.

14 There's more advance search. It has things like
15 CNN searching and proximity searching and the kind of
16 things that state-of-the-art full-text search engines
17 have.

18 Beginning with day 4 with this system we are
19 going to be creating renditions of all the paper documents
20 as well as the electronically filed ones.

21 So beginning with this system you are given a
22 full-text search even paper documents that you received as
23 well as electronic. So hopefully that will be a big
24 benefit.

1

Being able to combine a full-text search with the

1 search parameters, like docket number or the person who
2 filed it, things like that, is really pretty powerful.

3 Instead of going through reams of information,
4 you can focus in on a specific set of documents that you
5 want to look at quickly. So hopefully that will be a big
6 help.

7 Also the docket sheet search in the new system
8 will show consolidations right when you do the search. You
9 don't have to execute a separate search for the docket
10 sheets.

11 One thing I didn't emphasize but I meant to is
12 with the new screens, you will have one screen for the
13 basic search. You won't have to go one screen to search by
14 docket, another screen to search by date, another screen to
15 search another way.

16 So, besides consolidating systems we've also
17 consolidated search screens to make it a little bit easier
18 to use.

19 Then once you have done a search and you get a
20 results list back, you will have direct access to the
21 document images, the documents, information about the
22 documents. There will be search highlighting which we have
23 on CIPS right now but we don't have on RIMS.

24 You will be able to mark a group of documents and

1 then perform actions on those documents as a group.

1 For example, you'll have a list of documents.

2 You've marked them all. You can say, okay, print all of
3 these. You don't have to go individually to print each
4 one.

5 You can download a group of documents into a zip
6 file and take it with you and go somewhere.

7 We'll also be having a capability where you can
8 request copy services to create a CD for you. So you can
9 have a CD of a group of documents.

10 Also you can peel the documents in quick success
11 so you don't have to search for a document and keep
12 repeating searches to look at different documents.

13 Also there's results list of documents. You will
14 be able to sort, print and save those lists.

15 So if you are using that list as a working sheet
16 to know what documents you need to look at or read, that's
17 a handy thing to have too.

18 Of course you will be able to refine your
19 searches and narrow them and won't have to keep reentering
20 your search criteria.

21 As far as the viewer some new benefits: We are
22 using a package, tool product called Accuview from Acusoft,
23 I believe.

24 Did I get the name of that right, Tom?

1

MR. RIELEY: NetView from Acusoft.

1 MR. HINZ: NetView from Acusoft.

2 And it streams the information that you're going
3 to be viewing.

4 So if you're viewing a large map and you need a
5 high level, it will stream the information you need to see
6 that rendition. So it's very fast.

7 Then when you go to zoom in and look for more
8 detail in a particular area of the map then it brings down
9 more information.

10 I guess that wasn't a very good description, but
11 it is going to be faster than the current system.

12 You can rotate images and do fancy things like
13 that.

14 You will be able to view documents as you do with
15 RIMS and also be able to open up the native application.
16 If someone is filing the document in Word, you will be able
17 to just launch Word right from the search list and use Word
18 to look at the document.

19 I already mentioned that we're going to be doing
20 PDFs for paper filings.

21 Another improvement is all of the images on the
22 system are going to be stored on online storage where
23 magnetic storage.

24 In the current RIMS we have a lot of documents

1 that are not accessed that often and they are only stored

1 on optical storage which takes longer for the machine to
2 go, mount the platter and read and get back to you.

3 With the new system we are going to put all of
4 the images on magnetic storage. So if you go look for an
5 older document you won't have to have about a 30 second
6 wait to get some of the older documents.

7 We have tested the new viewer for compatibility
8 with the Americans with Disabilities Act, and it really has
9 some features that are nice for people with disabilities.

10 For instance, you can look at text with a black
11 background and white text if you have certain vision
12 problems. So there are some improvements there.

13 Okay.

14 What are we going to do with all this with new
15 system or why do we need this new system? Again I forgot
16 to scroll down the slides. Sorry about that.

17 One thing that we think is key -- as I mentioned
18 before, the current RIMS is well over five years old so it
19 was time for us to update the technology, refresh the
20 technology for it.

21 But especially since we are expanding e-filing we
22 need an improved system that's state of art because when
23 you are e-filing you want to be looking at documents on
24 line; you don't want to be relying on paper.

1

So we knew we needed some improvements to keep

1 growing e-filing.

2 Once we get into electronically serving documents
3 or electronically distributing them, instead of using the
4 mail so much, again it is key to our state-of-the-art
5 document management system that can grow and is extremely
6 scalable.

7 Research available for the public is another
8 result of reliability. From time to time we do have
9 especially problems with the optical subsystem in the
10 current system.

11 So this system will be up a lot, will be up a lot
12 more and we won't have the problems with optical.

13 Also we believe we should be able to publish
14 documents a lot faster with this system once we work
15 through all the different processes that FERC goes through
16 to publish documents.

17 Again, that's a state-of-the-art system and
18 should support growth and process improvements.

19 So, that's pretty much all I had.

20 I already mentioned you can go to our website now
21 and get a flavor for how the new search is going to work.

22 We will be making the new system available to
23 staff later this week and to the public in March, and we
24 will be having demos and our course training as well.

1 That's what we have.

1 Any questions?

2 CHAIRMAN WOOD: I have one.

3 I have been pushing on getting folks to file
4 electronically since I have been here. What ability does
5 electronic filing have to get published faster under the
6 new system? Is it about the same as scanning it or is it
7 still faster?

8 MR. HINZ: One key thing is we need to make sure
9 the system is state of the art and reliable.

10 The current RIMS system, although it served us
11 well -- I mean if you go back and look how much money we've
12 spent on it and how much it lasted, I think it has been a
13 good investment for a good return -- but to move forward I
14 think we need again something that's state of the art and a
15 little more reliable.

16 The new system has a lot more redundancy and
17 doesn't have the single points of failure that the current
18 RIMS has.

19 Did you want to add something?

20 MS. TAYLOR: Yes.

21 I was going to speak to how much faster we can do
22 e-filing than we can do scanning.

23 Complaints submitted to the Commission have a
24 high priority to get into RIMS, and with the cooperation of

1 the Office of the Secretary, the very best we can do is

1 about an hour and half from her desk into the RIMS system.

2 On any given day a comment could beat that hands down.

3 CHAIRMAN WOOD: By comment you mean what?

4 MS. TAYLOR: Filed electronically.

5 CHAIRMAN WOOD: Filed electronically.

6 I don't know how else to say it, outside world,
7 if you're watching there's a whole lot of this we'd really
8 like you to file electronically to save a tree and one
9 whose last name is Wood. I have a personal investment in
10 it.

11 (Laughter.)

12 COMMISSIONER MASSEY: You know, I'm reconsidering
13 what I said.

14 CHAIRMAN WOOD: You can like me. You don't have
15 to like my jokes.

16 (Laughter.)

17 COMMISSIONER MASSEY: That was really bad.
18 Everybody laughed.

19 Any other thoughts for the team?

20 The main reason I wanted you all to focus on A is
21 to take a bow because it's a great effort forward that this
22 agency has done, and I wanted you all to have some glory
23 time but also let the world know out there we do want
24 this.

1

The March time frame is very critical for us as a

1 road test so that our outside constituents can tell us what
2 they think and we can make any necessary changes if they
3 come forward and people give us good feedback.

4 But we've gotten some I know from the staff who
5 used it over the past several months. I appreciate that
6 people are bringing back in feedback. Sometime you don't
7 want to hear it. But that's why we need to make this as
8 user friendly as possible. It is a good system. I've used
9 it myself and like it, and I think the outside world will
10 like it too.

11 Tom, Andy and Beth and everybody behind you
12 working with you thank you very much.

13 MR. HINZ: Thanks for your time.

14 COMMISSIONER BREATHITT: There's one comment I
15 have. I will admit and confess that RIMS is very difficult
16 for me. I figured out Google and Yahoo. If this can get
17 as easy as those are to do a search I say hear hear.
18 That's great.

19 CHAIRMAN WOOD: This is very Google-est.

20 (Laughter.)

21 MR. HINZ: We hoped we've fulfilled that, but
22 that was the goal.

23 Thanks.

24 CHAIRMAN WOOD: Thank you all.

1

SECRETARY SALAS: Mr. Chairman and Commissioners,

1 we are going to consider the following items as a group.
2 It's E-12, Neptune Regional Transmission; E-18 TransEnergie
3 U.S. Limited and Hydro One Delivery Services Inc.; E-19,
4 TransEnergie U.S. Limited.

5 Commissioner Brownell is recused from E-18.

6 We will hear a presentation by Olga
7 Kolotushkina.

8 MS. KOLOTUSHKINA: Mr. Chairman and
9 Commissioners:

10 In the E-12 and E-19 orders, the Commission
11 addresses the following filings concerning merchant
12 transmission facilities:

13 E-18 addresses the Lake Erie Link interconnector
14 project, a proposal by TransEnergie U.S. Limited and Hydro
15 One Delivery Services Inc. under which their subsidiary
16 Lake Erie Link Company will construct a high-voltage direct
17 current transmission cable under Lake Erie connecting the
18 grid controlled by the Ontario Independent System Operator
19 to either or both the grid controlled by PJM
20 Interconnection and/or the grid controlled by a
21 Commission-approved Midwestern RTO.

22 E-19 addresses the Harbor Cable interconnector
23 project, a proposal by TransEnergie U.S. Limited under
24 which its project development subsidiary Harbor Cable

1 Company will construct a buried underground and submarine

1 high-voltage direct current transmission cable system under
2 the New York Harbor connecting the grid controlled by PJM
3 to the grid controlled by the New York ISO.

4 Under the Lake Erie Link and Harbor Cable
5 proposals, the applicants request that the Commission (1)
6 grant blanket authority to make sales of transmission
7 rights at negotiated rates and (2) grant waivers of certain
8 regulatory requirements and blanket approvals that are
9 customarily granted to power marketers.

10 E-12 addresses a request for clarification with
11 regard to the Commission's prior order conditionally
12 approving Neptune Regional Transmission System's proposal
13 to construct an undersea high-voltage direct current
14 transmission system connecting generating capacity-rich
15 regions in Maine, New Brunswick and Nova Scotia with
16 capacity-constrained markets in Boston New York City, Long
17 Island and Connecticut.

18 Neptune has requested that the Commission clarify
19 that owners of Transmission Scheduling Rights cannot be
20 required by the northeastern RTO to pay transmission
21 charges or export fees in addition to the purchase price of
22 TSRs, in order to transmit electricity through the Neptune
23 system and that a Transmission Scheduling Right represents
24 the physical right to use the Neptune system on a

1 point-to-point basis. Specifically, a Transmission

1 Scheduling Right is required in order to schedule a
2 transmission transaction over the Neptune system from one
3 specific point to another.

4 The Commission's orders conditionally accept the
5 proposed TransEnergie filings and grant in part Neptune's
6 request for clarification. Both TransEnergie orders also
7 grant in part and deny in part the requests for waivers and
8 blanket approvals.

9 With regard to the proposed merchant transmission
10 projects, we note the following:

11 First, the investors will assume full market risk
12 for the projects. All project costs, fixed and operating,
13 will be recovered from the revenues derived from voluntary,
14 negotiated sales of transmission rights. No users of
15 adjacent grids will be required to contribute to those
16 costs through mandatory grid use charges. Further, there
17 is no potential for cross-subsidization of market risk
18 because the investors and their participating affiliates
19 have no captive customers in the United States. Second,
20 each of the three merchant transmission projects will
21 create no barriers to competition, since potential
22 competitors' access to essential facilities will not be
23 limited.

24 Third, each of the merchant transmission projects

1 can link capacity-rich regions with capacity deficient

1 regions and will allow efficient arbitrage back and forth.
2 The pricing differential between the affected regions can
3 provide the incentive for investors to support these
4 projects, which will help to relieve transmission
5 constraints.

6 Fourth, the projects have the potential to add
7 substantial transmission capacity to enhance competition in
8 the electric markets proposed to be served. For the
9 Neptune project, the maximum capacity is 3600 megawatts;
10 for the Lake Erie and Harbor Cable projects, the maximum
11 capacity is 975 and 650 megawatts, respectively; for a
12 total of 5225 megawatts.

13 Fifth, by allowing for negotiated rates for
14 transmission services while that market power issues are
15 adequately addressed, the Commission's orders have to
16 provide some regulatory certainty for such investments to
17 proceed.

18 This concluded my presentation. We would be
19 happy to answer any questions you might have.

20 CHAIRMAN WOOD: Thank you, Olga.

21 I note with interest that these merchant DC
22 investments are being made in the northeastern region of
23 the country, and I wonder if there is something about the
24 market design up there that makes those more attractive.

1 We see constraints every where in the country. I wonder

1 why this kind of kind of seems to be ground zero for that.

2 Any thoughts from you all? Yes?

3 MR. CLAREY: I think the feeling is that there is
4 going to be RTOs that are going to be up in that part of
5 the country that are going to administer locational
6 marginal prices, and I think these RTOs will help provide
7 better definition of transmission property rights in that
8 part of the country.

9 We're thinking that may be one reason why this
10 particular area has been found to be attractive for these
11 kind of projects.

12 CHAIRMAN WOOD: Make a note for what we need to
13 do in regard to the transmission property rights issues to
14 make sure that what we learn from these cases here about
15 what an investor needs with regard to transmission property
16 rights definition?

17 MR. CANNON: I think we're going to have to be
18 very specific in terms of defining those property rights
19 and what they mean.

20 I haven't thought all of the different facets of
21 this issue through, but it strikes me this may be another
22 kind of grandfathering issue that we may confront.

23 To the extent merchant transmission investors go
24 out and make an investment decision based on presumptions

1 about what rights they will enjoy in a particular facility,

1 I think that will be one more type of right that we'll have
2 to consider how do we meld that up with this new set of
3 rights that will come out of any RTO and make sure we
4 respect the underlying investment decisions that were made
5 there.

6 CHAIRMAN WOOD: I just want to make sure we do
7 that.

8 I do think it is a new day coming that we do have
9 merchant transmission. I mean, it was kind of a pipe
10 dream, even as recently as 18 months ago.

11 I think Neptune -- is that the first one the
12 Commission has done?

13 MR. CLAREY: I think the Cross Sound Cable
14 project with TransEnergie is the first one.

15 CHAIRMAN WOOD: It is a pretty new world there,
16 and we always thought that transmission was going to be
17 good forever. Maybe not.

18 I just want to make sure that we think and people
19 outside that will be working with us in developing make
20 sure we accommodate this, but I think we need to make sure
21 it is a balance between what the existing transmission is
22 and what the new transmission does.

23 It has a lot of neat issues in it. It might be
24 DC and merchant transmission that AC popped in the grid

1 might have a whole different sets of attached to it.

1 Those are not before us now. So I'll stick with
2 the easy one DC. It will make it a lot easier to think
3 thought. I think it is kind of a policy making where we
4 are now.

5 COMMISSIONER MASSEY: I suppose the pricing for
6 this will be limited by the generation pricing differential
7 on either end of the straw.

8 Is that accurate? I mean practically speaking?
9 Probably no one would pay more for this transmission than
10 the pricing differential.

11 MR. CLAREY: I think that's a reasonable
12 assumption.

13 COMMISSIONER MASSEY: In a sense, we don't quite
14 say this is like generation, although it is in some
15 respects, but it is different in that it is transmission
16 but it actually is fulfilling a similar purpose, although
17 we are being cautious and careful about how we proceed.

18 There are limitations on these projects so they
19 wouldn't fit everywhere. I think the point you make about
20 the fact that it is DC gives us more comfort.

21 Is that a safe statement at the staff level, that
22 it gives us more comfort?

23 MR. CANNON: Yes. There have been discussions
24 among staff about that question, and I think there a number

1 of people on the staff that share that same view.

1 COMMISSIONER MASSEY: I'm glad you were
2 highlighting these projects. I think it is a new day.

3 We stated some principles I think in our first
4 order on these issues on the project that's under Long
5 Island Sound, principles with respect to the auction and
6 who can propose these kinds of projects, and I think those
7 are important principles.

8 I think these are very interesting projects.
9 They are innovative. They help meet a need. And I think
10 the Commission is sending a very clear and strong statement
11 that we are open to it.

12 MR. LARCAMP: I think right now you're probably
13 right about the congestion differential setting the
14 ceiling.

15 I think we need to make sure that we don't just
16 think in the old world when we are in new world. There may
17 be reliability benefits, for example, that certain
18 customers would be willing to pay for. That might be
19 conceivably greater than the current differential of the
20 congestion differentials.

21 I am thinking about from -- we know we have a
22 load pocket in southwestern Connecticut. We know we have
23 some cables that are proposed to go across there.

24 I'm just suggesting that as we move forward and

1 people are looking to develop new business opportunities,

1 new customer choices that sort of the new world may be very
2 different in terms of the price the customers are willing
3 to accept for a service than we have today.

4 COMMISSIONER MASSEY: Is the pricing for these
5 projects, the probable pricing tied to locational marginal
6 pricing?

7 MR. LARCAMP: I think it is right now.

8 All I'm suggesting is that these facilities once
9 constructed will have a pretty long service life, and I
10 just think that we need to be willing to accept new pricing
11 theories as we move forward into a more competitive
12 environment.

13 COMMISSIONER MASSEY: I appreciate that point.

14 Thank you.

15 COMMISSIONER BREATHITT: I would just like to
16 point out that the merchant transmission lines have
17 features that are also not to dissimilar from features that
18 we are requiring of other transmission such as they must
19 provide open access transmission under future RTO tariffs
20 and, of course, under the OATT that the differences that
21 they are being constructed at assuming the full market
22 risks.

23 Other similarities though are that they will be
24 subject to market monitoring, that they do address

1 affiliate concerns, that they will create tradeable firm

1 secondary transmission rights.

2 Another feature is that they will use open

3 seasons to initially allocate transmission rights.

4 They are different in some aspects, but they will

5 be given and required equal treatment in others.

6 So there are I think very good solutions to

7 solving issues of constraints and a lot of them are going

8 under water, which makes them also very different from

9 other overland transmission longer line cables.

10 I am glad to see more of these coming in for rate

11 treatment and approval and hope that they will continue to

12 solve unique pockets and regions of the country where these

13 are the best solutions that can be proffered.

14 COMMISSIONER MASSEY: I have a question about the

15 open season issue.

16 Are these being proposed with open seasons or are

17 we requiring open seasons?

18 MR. CLAREY: They are being proposed with open

19 seasons.

20 COMMISSIONER MASSEY: Because of language in our

21 previous order encouraging that requiring that?

22 MR. CLAREY: That's correct.

23 MR. CANNON: I want to add though I think it's in

24 the investors' interest in order to get some sense of what

1 the potential usage of any particular line may be.

1 I think there's a real business interest here in
2 terms of doing an open season in finding out sort of how
3 much interest there really is in this particular line.

4 CHAIRMAN WOOD: The game begins bin.

5 COMMISSIONER BROWNELL: I'll vote aye with
6 recusal as noted.

7 COMMISSIONER MASSEY: Aye.

8 COMMISSIONER BREATHITT: Aye.

9 CHAIRMAN WOOD: Aye.

10 SECRETARY SALAS: The next item on the discussion
11 agenda this morning is E-42 Trans Select Inc.

12 MS. WHITE: Good morning, Mr. Chairman and
13 Commissioners:

14 I'm Lodie White. Along with me is Mike Donnini,
15 Asher Clarey, Virginia Akers and Mike McLaughlin.

16 E-42 conditionally approves a proposal by
17 Consumers Energy Company, to transfer its transmission
18 affiliate, Michigan Electric Transmission Company, LLC, to
19 an unaffiliated entity, Michigan Transco Holdings, LP.

20 After the transfer, transmission service in
21 Consumers Energy's service territory will be provided by an
22 entity that is not affiliated with any market participant.

23 Approval of filings related to the proposed transfer is
24 conditioned on certain limitations to Consumers Energy's

1 retained rights to land and rights-of-way associated with

1 the facilities that are subject to the transfer.

2 The order also approves, subject to certain
3 conditions, proposed rates for Michigan Electric
4 Transmission Company, LLC. Applicants request a form of
5 innovative rates, based on a moratorium reflecting the
6 transmission component of bundled retail rates, to take
7 effect upon the closing of the transaction and continue
8 through December 21, 2005.

9 Consistent with Order No. 2000, the order
10 approves the proposed rate moratorium to take effect only
11 upon transfer of control of the transmission facilities to
12 a Commission-approved RTO and denies, without prejudice,
13 the request for the moratorium to take extent beyond
14 December 31, 2004.

15 Applicants also request authorization to recover
16 the amount that Michigan Transco Holdings pays Consumers
17 Energy to compensate for the income tax effect of the
18 sale.

19 The order authorizes such recovery conditioned on
20 the amount being determined consistent with the
21 Commission's previous approval of a like concept for the
22 International Transmission Company.

23 In addition, the order conditionally approves
24 settlement agreements with certain wholesale customers,

1 resolving issues concerning the effect of the proposed

1 transfer on these customers' transmission ownership and use
2 rights under prior agreements.

3 Approval of the settlement agreements is
4 conditioned on any new use rights being defined consistent
5 with the terms and conditions of the open access
6 transmission tariff applicable to the Michigan Electric
7 Transmission Company LLC system.

8 Thank you, and at this time we'll be happy to
9 answer questions you may have.

10 CHAIRMAN WOOD: Walk me through the discussion
11 and the order just publicly on what the final order here
12 does to the easement issue with Consumers.

13 MR. DONNINI: Under the easement agreement as it
14 was proposed by the applicant the use or -- I should back
15 up a little.

16 The Consumers is proposing to retain ownership,
17 primary ownership of the land and right-of-way associated
18 with the transmission facilities, and it is providing an
19 easement to Michigan Transco Holdings.

20 It is limited to the existing uses of the land
21 and right-of-way for existing transmission facilities.

22 For new transmission additions or expansions the
23 vacant land is available for transmission additions and
24 expansions, but the Michigan Transco Holdings must sort of

1 bite through the value of that land for nontransmission

1 uses.

2 So the easement agreement essentially retains for
3 Consumers the economic value of the vacant land for
4 non-electric transmission uses but does provide Michigan
5 Transco the ability to build transmission if it is willing
6 to pay Consumers opportunity costs for losing the ability
7 to use vacant land for nontransmission uses.

8 I should probably note that there is a fixed
9 lease payment that Michigan Transco pays for the easement
10 and applicants indicate that is based upon the book value
11 of the land.

12 The order essentially requires that the vacant
13 land be available primarily for transmission additions and
14 expansions and the Consumers' retained interests are
15 limited to uses of the vacant land that don't interfere
16 with any future transmission additions or expansions.

17 It essentially takes the value of the land which
18 the applicants have given a priority for nontransmission
19 uses and places it with Michigan Transco for transmission
20 uses.

21 And that is also consistent with the fact that
22 Michigan Transco is paying for the book value of the land
23 through the easement agreement.

24 CHAIRMAN WOOD: I am comfortable with that.

1

I do, however, have an open mind upon rehearing

1 Consumers and Michigan Transco have a different
2 understanding of that.

3 I think certainly this order stands for the fact
4 that a virtual utility is certainly like the last batch of
5 orders. There are some new characters that are going to be
6 start being on the stage in the new world, and virtual
7 utilities where they really don't own the assets but lease
8 them from people under lease arrangements will probably
9 become more and more part of the scene. I want to make
10 sure we can accommodate that.

11 I think what we will probably be hearing, and I'm
12 glad you brought it out, is what kind of analysis we are
13 going to pay so much for that lease arrangement range.

14 At this stage we are now going to make sure the
15 lease arrangement terms, conditions and rates are just and
16 reasonable.

17 So that's how I got comfortable with offering the
18 settlement in this regard.

19 I do note from one of our discussions that I
20 think certainly the two of us would be open to a feedback
21 on the hearing from the settling parties here as to how
22 that balance might be more appropriately struck, but I view
23 what we are doing here is making sure that the value that
24 the price of the lease is just and reasonable for Michigan

1 Transco to pay back to Consumers, but I don't want to

1 fundamentally upset what I think is a business strategy
2 that I think has a lot of promise.

3 COMMISSIONER BREATHITT: I am okay with changing
4 this one feature of the order on the lease agreement,
5 flipping that to give -- I don't know if we would say equal
6 rights or more rights to the new entity.

7 But there is a bit of a lingering question in my
8 mind, and it arises from my days being a state commissioner
9 when pole attachment issues, which can be quite thorny,
10 rose to the level of policy discussions and hearings at the
11 state commission and whether you use a pole attachment to
12 connect the last mile to a school for high-speed Internet
13 connections or whether there would be a tussle with the
14 cable company on whether it could use the pole attachment
15 or whether the uses for the electric company which owns it
16 always gets the primary use.

17 So I was comfortable with changing the result of
18 this one feature, but I also know that we weren't parties
19 to the settlement discussions and whether or not the pole
20 attachment issues were part of the reason that the
21 settlement was crafted the way it was.

22 That's all I wanted to say.

23 COMMISSIONER BROWNELL: I would like to just add
24 some thoughts about that, and certainly I would be willing

1 to hear more from the parties who engaged in the

1 settlement.

2 It struck me as frankly that the staff may have
3 been a savior here to an agreement that three or four or
4 five years down the line was going to be contentious and
5 difficult, and I like you remember those pole attachment
6 orders.

7 I think what I would simply encourage the parties
8 to do -- it's often tempting to agree to things to get the
9 deal done at the day -- but this one I could see us being
10 asked to mediate in the future unless we made this change.

11 So as we are looking at new business models, and
12 I am excited about the business models we have seen today,
13 I think parties need to think beyond the deal of the moment
14 and how this is actually going to work in the future
15 because we have enough to mediate. I don't think we need
16 to add any new opportunities to our list.

17 I just think the parties need to be watching out
18 for the long-term liabilities of what they are agreeing
19 to.

20 COMMISSIONER MASSEY: Well, I actually fully
21 support this order.

22 I would be concerned that under the lease
23 agreement that we change here that the Michigan Transco is
24 encumbered in transmission expansion in ways that Consumers

1 was not encumbered when it owned the transmission

1 facilities.

2 Transmission uses of the easement are effectively
3 subordinate to nontransmission uses.

4 Transmission uses I think should have primary
5 call on the rights-of-way.

6 My concern is that the easement as proposed might
7 put a cloud over the independence of the Michigan Transco
8 and this might prove troublesome to them later on as they
9 participate in a RTO.

10 They have may want to participate as an
11 independent transmission company within RTO and to carry
12 out the responsibilities that the Commission determines can
13 be exercised by a truly independent transmission company.

14 So I think this easement would be troublesome in
15 that respect to them or potentially could be.

16 And also Michigan Transco pays the full book
17 value of the land in its lease payments to Consumers and,
18 therefore, should enjoy the unencumbered right to the
19 land.

20 So, although we always have an open mind on
21 rehearing I must say that I think this order heads in the
22 right direction.

23 CHAIRMAN WOOD: Votes.

24 COMMISSIONER BROWNELL: Aye.

1

COMMISSIONER MASSEY: Aye.

1 COMMISSIONER BREATHITT: Aye.

2 CHAIRMAN WOOD: Aye.

3 SECRETARY SALAS: We will consider the next four
4 items for discussion page 8, page 9 and page 10, all
5 related to hydro power, and page 11, LT of America.

6 MR. BROOKS: Good morning. My name is Keith
7 Brooks. With me up here are Barbara Christin, Chris
8 Nygaard and Tom Dean.

9 The four orders on the agenda today approve a
10 comprehensive settlement in issuing new licenses to Erie
11 Boulevard Hydro Power and four projects located on the
12 Rapid River in St. Lawrence County, New York, the
13 settlement designed by 17 participants.

14 The combined construction capacity of the project
15 is 161 megawatts.

16 Three of the projects generate electricity and
17 the fourth is a storage reservoir which provides seasonal
18 and daily flow regulation to optimize downstream power
19 generation.

20 The licenses provide for power generation and
21 long-term protection and enhancement of Rapid River's fish
22 and wildlife resources.

23 Additionally, the licenses enhance opportunities
24 for recreation and public access to project lands.

1

COMMISSIONER BROWNELL: Thank you.

1 I asked for a presentation on this because first
2 I wanted go thank all of the participants, most certainly
3 our staff and the other bureaus who are involved and the
4 stakeholders.

5 This has been a 10-year long re-licensing
6 process, and I was featured in Hydro Day, which visited
7 some of the issues, and I'm really pleased that some of the
8 more contentious issues particularly those regarding the
9 consultation on the protection of cultural resources with
10 the St. Regis Mohawk Tribe were resolved, and I commend the
11 tribe itself for such a speedy response to the process.

12 I'm also glad because, as I said before, I
13 applaud, support and encourage, do whatever it takes to get
14 to settlement, because I think the parties are far better
15 equipped to determine what their needs are and what the
16 needs of their communities are.

17 I wanted to revisit for a moment on the issue
18 that we talked about a couple weeks ago, and that is what
19 we do not include as part of our orders from the
20 settlements.

21 It was my understanding that our standard is if
22 we do not determine it to be enforceable under our
23 authority we do not include it in the final order. Is that
24 correct?

1

MS. CHRISTIN: That's correct.

1 COMMISSIONER BROWNELL: Does anywhere there exist
2 a kind of list of things of issues that we typically see in
3 settlements that we would determine that are not
4 enforceable by us to give some guidance to the parties
5 about what they might expect in response?

6 MS. CHRISTIN: I missed the first part of your
7 question.

8 COMMISSIONER BROWNELL: Does there exist a list
9 or a guiding document that would give the parties some
10 understanding of what we determine to be enforceable or
11 nonenforceable just to give them some guidance?

12 MS. CHRISTIN: In the Commission order is where
13 it's determined what's included and what's not. The
14 Commission attempts to give some guidance there.

15 Starting back in about 1994 we said what we
16 thought would be or should be enforceable by the
17 Commission, and since that time we have attempted to just
18 sort of keep refining that. We generally try to do it in
19 particular license order.

20 In this license order, for example, we took the
21 settlement -- actually in the four licenses -- we took the
22 settlement it seemed particularly easy to do it here, and
23 we separated out those conditions that would apply to each
24 of the four licenses and included those as an appendix to

1 the license orders.

1 So, in this case anything that's not in the
2 appendix is not part of the license and we're not going to
3 enforce by the Commission.

4 COMMISSIONER BROWNELL: Okay. I guess I was
5 going at it from a slightly different way, and perhaps the
6 stakeholders would like to weigh in at some point with us.

7 It seems to me that there isn't a full
8 understanding, at least in my mind and from what I hear, of
9 what we really believe to be enforceable and non, and
10 perhaps if we could go on individual orders some
11 consolidation of that into some kind of a guidance document
12 would facilitate the settlement discussions, although
13 candidly I have to tell you I would like to find some way
14 to acknowledge all of the aspects of a settlement even if
15 it were something that were attached to the order that
16 identified all elements of the settlement and their
17 importance whether we believe we can enforce it or not.

18 I mean simple things like the ADR provisions and
19 this.

20 It strikes me as not particularly encouraging
21 when we do our own slice and dice, particularly when people
22 don't understand it.

23 I don't know how you feel about that, but the
24 importance of settlement is so great I would like to find a

1 way to look toward at least acknowledging the full

1 settlement, whether we particularly can enforce any
2 individual provision, and no one should be confused about
3 where we are going.

4 I think some guidance document would be helpful.

5 MS. NYGAARD: Commissioner Brownell, I agree, and
6 as Barbara was indicating we have in recent years we hope
7 made it clear and clearer.

8 We generally regard the rehearing order in the
9 Erie Boulevard case, 1993 FERC paragraph 61.

10 MS. CHRISTIN: 61-176.

11 MS. NYGAARD: Right.

12 Where we made every effort to be as clear as
13 possible in terms of sort of catalogue of the types of
14 settlement provisions that the Commission has thought would
15 be problematic to enforce.

16 Really the only one that I think has been at
17 issue exactly is the ADR provision you speak to.

18 I also agree with your point about an order
19 should reflect approval of an entire settlement.

20 We try to do that. We have been very careful to
21 explain when we think when we are saying the settlement
22 looks really good for everyone and then to say and here is
23 what is in the license as specifically referenced.

24 Anything that is adopted documented in the licenses in the

1 ordering paragraphs are incorporated by reference.

1 So we have tried to be as crystal here as
2 possible. We are always looking to make it en better.

3 COMMISSIONER MASSEY: Are you saying that you
4 think that we have given the equivalent generic guidance on
5 this point? I notice the Erie Boulevard case was a 1999
6 decision.

7 Has there been an evolution of the guidance since
8 then? Would it be appropriate for more generic guidance in
9 this area.

10 MS. NYGAARD: Yes, there has been -- I'm sorry.
11 Let me correct myself.

12 The latest Avista Corporation, 1993 FERC 61, 116,
13 where you specifically set out to do exactly as you
14 propose, and we could certainly turn that into a kind of
15 generic document that could be made more readily available
16 to everyone that would benefit by it.

17 COMMISSIONER MASSEY: I think Commissioner
18 Brownell makes a very good point.

19 It's obvious that these settlements include
20 really important provisions that we have said that we
21 cannot enforce but they are nonetheless important.

22 By the way how do those provisions get enforced?

23 MS. NYGAARD: Those being which?

24 COMMISSIONER MASSEY: Provisions of a settlement

1 that are incorporated in the settlement but we say that we

1 cannot enforce them. How do they get enforced?

2 MS. CHRISTIN: As we have indicated, the
3 Commission has indicated in its orders that -- there are
4 two answers to that.

5 One is if they can structure the settlement terms
6 to obtain enforcement in other fora, typically state court
7 contractual. Now we understand that some agencies aren't
8 really in position always to do that.

9 The other which we have also suggested in several
10 orders, including the Avista order referred to, is to
11 simply make a slight language modification to the ADR-type
12 provision which would then make it easy as pie for us to
13 deal with.

14 So I really think that perhaps there is less of a
15 problem than sometimes is suggested, and we're not aware of
16 any parties ever telling us that they needed anymore --
17 that they couldn't settle on account of these
18 uncertainties.

19 COMMISSIONER BROWNELL: I don't know that that is
20 the case, but certainly some of us have heard that there is
21 some confusion there.

22 So maybe in developing and updating the document
23 you want to do a focus group with the stakeholders to get
24 their feedback.

1

MS. CHRISTIN: Certainly.

1 MR. ROBINSON: If I could make one quick comment
2 before the countdown, Commissioner, you mentioned getting
3 these projects out in eight or 10 years, and I just wanted
4 to also have an opportunity to pat on the back of staff.

5 Certainly, at the December hydro conference we
6 learned that we as a staff have a number of steps to take
7 to enhance the streamlining of measures that we take to
8 make sure these projects get out.

9 I think this project stands for how we are trying
10 to do that differently since the December conference.

11 Barbara Christin in particular and Tom Dewitt
12 worked very hard on program agreement with the tribes and
13 the agency and others on a very back and forth
14 collaborative means to get everybody on board on that
15 particular issue which was the last piece of the puzzle
16 that we had to get together before we could bring this to
17 the Commission.

18 I see that as a direct result of that December
19 conference and the types of things we learned about how we
20 collectively staff handle these projects and hope that this
21 is just one of several that will reflect that sort of new
22 look at these projects.

23 COMMISSIONER BROWNELL: My remarks perhaps are
24 not sufficient recognition of the staff's contribution.

1 Indeed that's one of the reasons I called it. I think we

1 made great progress and I appreciate all the work that's
2 been done. Ten years is long enough.

3 CHAIRMAN WOOD: Check another one off.

4 MR. ROBINSON: Four.

5 CHAIRMAN WOOD: Then there were --

6 COMMISSIONER BREATHITT: Don't go there.

7 CHAIRMAN WOOD: There were 51 two months ago.

8 MR. ROBINSON: I took my daughter to a Lincoln
9 Park concert last night, and just simple math is beyond me
10 right now.

11 COMMISSIONER BROWNELL: Aye.

12 COMMISSIONER MASSEY: Aye.

13 COMMISSIONER BREATHITT: Aye.

14 CHAIRMAN WOOD: Aye.

15 Thank you, Barbara and Chris.

16 This concludes the at part of the meeting, and
17 now we have some presentations under A-3 that we asked for,
18 and I appreciate the parties up here and, Madam Secretary,
19 I turn it back to you.

20 SECRETARY SALAS: Mr. Chairman and Commissioners,
21 at your request we will now hear an update on our
22 developments in the East, Midwest and Southeast areas.

23 For this purpose we have representatives who are
24 joining us this morning to explain recent developments and

1 answer your questions.

1 We will begin with Mr. Nick Brown of SPP on the
2 proposed SPP Midwest ISO merger.

3 MR. BROWN: Chairman Wood and Commissioners, I am
4 very pleased to again be here and provide you an update on
5 the Southwest Power Pool and Midwest ISO merger.

6 At the very highest level I can tell you that we
7 are this close (indicating).

8 Fortunately after many months of effort, last
9 Thursday we distributed to the Southwest Power Pool board
10 of directors the definitive documents necessary for the
11 consummation of this particular deal.

12 While I would have much preferred that the
13 development of these documents occurred in a much shorter
14 period than five to six months, there are two reasons that
15 it did take this long.

16 First, both Southwest Power Pool and the Midwest
17 ISO utilize a collaborative process involving our very
18 diverse stakeholder groups to provide input on our
19 processes.

20 Second, there were just a few other things going
21 on like implementation of the Midwest ISO tariff or Midwest
22 ISO Southwest Power Pool PJM common market initiative, ISO
23 discussions with Alliance and factory acceptance testing on
24 the Southwest Power Pool's market settlement systems.

1

The documents that were distributed were first a

1 purchase consumption agreement necessary to affect a
2 transfer of substantially all of Southwest Power Pool's
3 assets to the Midwest ISO and their acceptance of those
4 assets and liabilities.

5 Also included was a conditional withdrawal
6 agreement for Southwest Power Pool members necessary to
7 again affect the particular transaction, and last but not
8 least the ballot distributed to Southwest Power Pool
9 members.

10 Pursuant to Arkansas law our members are required
11 to approve the transfer of substantially all of our assets.

12 So, what is next in the approval process? Our
13 board meets next Tuesday to consider the recommended
14 documents from our officer team.

15 The Midwest ISO board meets on Thursday also to
16 consider the documents.

17 The ballot that I've previously mentioned has
18 been distributed to our members to receive their approval.

19 I'm happy to say that even though that ballot was
20 only distributed Monday evening, we have already received
21 several ballots in the affirmative.

22 And then last but not least, following the
23 Midwest ISO board meeting the Midwest ISO transmission
24 owners must approve modifications to their documents

1 necessary to affect the merger.

1 Then the next steps include getting our
2 individual transmission owners to sign onto the
3 organization and filings of our modified documents with
4 this Commission.

5 When we make those filings we will be requesting
6 your expedited action on those to be sure you understand
7 prior to our ability to close the deal your acceptance of
8 those modifications is required.

9 Those modifications are in my opinion fairly
10 simple but considerable in terms of governance,
11 modification of the Midwest ISO board's structure to
12 include four of Southwest Power Pool's non-stakeholder
13 directors and then, second, certain financial aspects of
14 the governing documents.

15 We would hope to close the merger before the end
16 of the second quarter.

17 Again, the primary time will be receiving your
18 acceptance of our filed documents. We will be submitting
19 those modifications by the first part of March in a filing
20 to you.

21 Then we will immediately begin assuming approval
22 by our boards next week the integration process that
23 focuses on obviously our staff organizational structure and
24 integration of our systems which I'm happy to say are very,

1 very consistent even as of today, which is one of the

1 things that promoted our merger talks to begin with.

2 Last but not least, back probably the most
3 important will be the beginning of what we consider to be a
4 quick win, and that is the filing of a consolidated tariff
5 with this Commission, which we hope to do within 30 days of
6 next week's approval.

7 Now that will occur over two steps. The first
8 tariff filing will be to implement what we consider to be
9 one-stop shopping across the combined footprint. It will
10 not be a fully detailed consolidated tariff, but from a
11 market perspective we hope to provide the one-stop shopping
12 with that initial tariff filing very quickly and then allow
13 our collaborative processes involving our stakeholders to
14 over the next many months hash out some more of the details
15 with respect to overall regional rates and revenue
16 allocation.

17 I'll be happy to answer any questions that you
18 may have.

19 CHAIRMAN WOOD: Do you anticipate filing your
20 consolidated tariff within 30 days of next week assuming
21 the votes support it and a separate filing, which will be a
22 MISO filing which would accommodate changing the name of
23 the board structure or board structure to accommodate?

24 MR. BROWN: That's correct, and we hope to do

1 that within two to three weeks.

1 CHAIRMAN WOOD: All right. So that's all wrapped
2 in the March time frame?

3 MR. BROWN: That's correct. It's moving very
4 quickly.

5 CHAIRMAN WOOD: Okay.

6 COMMISSIONER BREATHITT: What do you mean by
7 consolidated tariff?

8 MR. BROWN: One tariff, a single tariff. Both
9 the Southwest Power Pool tariff and the Midwest ISO tariff
10 are already very, very consistent in a number of respects.
11 Obviously they are both pro forma based.

12 From my particular point of view, it is not going
13 to take a whole lot to mesh them together and from the
14 market's perspective provide one-stop shopping consistent
15 with business practices, and we hope that this initial
16 filing will deal with that issue.

17 Then comes the sticky process of dealing with the
18 overall regional rate and revenue allocation.

19 Fortunately, both of our rate structures and our
20 revenue allocation structures are very, very similar.

21 So I would hope that that process would be
22 relatively speedy as well.

23 However, that also involves all of our diverse
24 stakeholders, and we want to utilize our stakeholder

1 process to accomplish that piece.

1 The first piece is more administrative in nature
2 and can be handled by the staffs.

3 It's a two-pronged approach but on all of these
4 steps we are focusing on them in parallel and not in a
5 sequential fashion.

6 COMMISSIONER MASSEY: I have two questions.

7 Describe how you are merging the boards of
8 directors.

9 MR. BROWN: Okay.

10 The Midwest ISO board today is a complete
11 non-stakeholder board of directors consisting of eight
12 persons. In the consolidated board we are proposing a
13 structure where we utilize their existing directors and add
14 to that four of the non-stakeholder directors from our
15 non-stakeholder segment.

16 Southwest Power Pool's board today has 21 seats,
17 seven owners, seven users from the stakeholder group and
18 then seven non-stakeholders, and we are proposing to blend
19 the non-stakeholder sector group from our board with the
20 Midwest ISO board.

21 COMMISSIONER MASSEY: So the SPP-MISO board will
22 become a non-stakeholder independent board of directors?

23 MR. BROWN: That's correct, a complete
24 non-stakeholder board of directors.

1

COMMISSIONER MASSEY: Some question I have is

1 whether SPP was a party to the letter of intent between
2 MISO and PJM with respect to the common market design.

3 MR. BROWN: We were not a signatory to the letter
4 of intent, but since our boards have approved our
5 memorandum of understanding to consolidate the merger we
6 have in that particular regard been acting as a single
7 entity.

8 In fact, I even have one of our folders, and Jim
9 is going to go in much more detail on that, but you see
10 them with respect to the meeting materials for that common
11 market structure that the Southwest Power Pool's name is in
12 there, eventually the name of the combined entity.

13 But we are very much engaged in that process. We
14 are very supportive of that process, and it is very much
15 consistent with our board's goal over the years to break
16 down regional boundaries that have existed by our
17 organizations.

18 COMMISSIONER MASSEY: Yes, I notice here you have
19 a website www.miso-pjm-spp.com.

20 MR. BROWN: That's correct.

21 COMMISSIONER MASSEY: Well, that's progress.

22 MR. BROWN: I very much agree, and Jim's has
23 quite a bit more information on that as well.

24 CHAIRMAN WOOD: What, Nick, are the issues with

1 revenue allocation from abandoned cost of recovery?

1 MR. BROWN: I don't know that there are any
2 issues. It's just our particular tariff describes a rate
3 revenue allocation process. The Midwest ISO tariff
4 describes a rate revenue allocation process.

5 While we both utilize zone rates, we both
6 allocate revenues very much the same.

7 Again you're talking about combining two regional
8 organizations that currently are administering regional
9 tariffs, and we need to utilize our stakeholder process to
10 evaluate the language that will be filed dealing with rates
11 and revenue allocation.

12 That's something that we as staff tend to shy
13 away from handling those administrative issues when it is
14 not our asset. We simply manage it. When it comes to rate
15 and revenue allocation, we utilize our stakeholder process
16 to development those.

17 Again, my personal feeling is that that is not
18 going to be a tough area to facilitate agreement because
19 again both tariffs are very, very similar in all rates, but
20 it's still time.

21 COMMISSIONER BROWNELL: Thank you.

22 MR. BROWN: Thank you very much.

23 SECRETARY SALAS: We'll now continue with
24 Mr. James Torgerson of the Midwest ISO on the Midwest

1 ISO-PJM letter of intent and associated issues.

1 MR. TORGERSON: Good morning. Thanks for the
2 opportunity to address the Commission. I'm Jim Torgerson
3 and I'm with Midwest ISO, but I'm actually speaking on
4 behalf of PJM, Midwest ISO and the Southwest Power Pool
5 today.

6 The objective we developed when we were looking
7 at the letter of intent was to develop a common single
8 wholesale market with one-stop shopping that meets the
9 needs of all the customers and stakeholders and using the
10 power grid in the states serving them.

11 I think we have a map that we were going to try
12 to project up. That would show where we are.

13 But basically it's the area encompassed by PJM,
14 all the Midwest ISO and Southwest Power Pool.

15 So you can visualize this runs from Manitoba down
16 into the New Mexico, Texas, Arkansas, Louisiana area, and
17 then from the west in Montana all the way to the Atlantic
18 seaboard.

19 One of the reasons we got together is that our
20 systems and our philosophy were very similar. We are all
21 using a L&P based or looking at a L&P based system for
22 congestion management. We're looking at daily and day
23 ahead markets. So philosophically we're all on the same
24 pang, and it made it very easy to get together.

1

I think all of the parties have placed a very

1 high priority on getting this done. We fully believe this
2 will happen and we can get it accomplished.

3 I think the priority is evidenced by the
4 resources we have already dedicated to this. We have set
5 up a number of teams or committees that are working
6 immediately.

7 And the other thing that's very important is both
8 of our boards, the PJM board and others -- you can see the
9 extent of the area we are talking about to have one
10 marketplace -- both of our boards, the PJM board on January
11 16, the Midwest ISO board on January 17 unanimously
12 approved the letter of intent and moving forward.

13 Since the announcement of the letter of intent we
14 have formed work groups, and the themes of the work groups
15 are basically to be customer focused, to do this saving as
16 much money as we can but then also leverage our resources
17 the ones we have jointly.

18 Some of the details on what we're doing:

19 We have a market team that's already met. Their
20 responsibility is a single market design forum.

21 We had a meeting here at the Commission. We
22 thank the Commission for letting us use their facility.

23 We had 140 attendees here. We had another 40
24 registered on the phone and numerous people involved in the

1 webcast. So we had very good response from the stakeholder

1 groups.

2 The objective is to receive customer and
3 stakeholder input into how we want to do this single
4 market.

5 They are currently developing a six-month action
6 plan which going on right now, including all the feature
7 meetings of the joint stakeholders so we can develop this
8 single market.

9 We have an IT team that's already working. They
10 have a charge within 90 days from the date we signed the
11 letter of intent, actually the date from our first meeting
12 which was a couple weeks later. So I've got to give them
13 some slack but 90 days is not a long time.

14 But we're looking for a high level assessment:
15 What systems we have, do an inventory of what we have
16 jointly, then leverage what we have with the idea of coming
17 up with the architecture that supports the one single
18 market design.

19 We also have our communication team, and I think
20 it was noted already we have our website up and running,
21 and they are responsible for the internal and external
22 communications including maintenance of by a website.

23 Finally, we have an integration team, and they
24 are putting the overall plan coordination process together

1 with a GNT chart we have, and we'll put that up. It will

1 give you an idea of how we're proceeding. In the GNT chart
2 -- this kind of locked up on us.

3 MR. WODYKA: I'll get it.

4 MR. TORGERSON: This was Richard's laptop. So
5 I'm not quite familiar with it.

6 But in the GNT chart we look at our single market
7 design forum meetings, which we are going to be to be
8 scheduling throughout the second middle two quarters of
9 2002.

10 We're not only going to have a conceptual market
11 design with the anticipation of filing with the Commission
12 hopefully by the end of this year on where we're heading
13 with that, and obviously it is going to be consistent with
14 of overall market design of the Commission. That is our
15 goal and we want to make sure they just dovetail together.

16 Early deliverables: We have identified some
17 already that we plan on implementing this year.

18 A couple of those are one-stop shopping
19 throughout the entire region which we believe we can have
20 done within the fourth quarter of this year, also
21 electronic scheduling for the whole footprint which again
22 we believe we should have done by the first quarter of
23 2003.

24 We're also looking at how we utilize joint

1 facilities, train people jointly and develop the common

1 market design, again consistent with the Commission's
2 standard market design.

3 The other areas we're going to be working on
4 besides the early deliverables will be looking at detail
5 market design. We are going to be identifying similarities
6 we have with each other and finalize our market rules,
7 again with the Commission's assistance and then do the
8 filing with the Commission.

9 By early 2003 we will be looking for making the
10 RFP process for whatever systems we believe we will need to
11 implement this one standard market design and doing the
12 construction of the test data, and we are shooting for the
13 end of 2003 to basically to have this all up and running.

14 Obviously the state and the regulatory and the
15 stakeholder process is going to be an ongoing process that
16 we're going to be focused on.

17 Our IT plan and developing of the data
18 repository, the market interfaces, the security need to
19 transport again is ongoing, and we're to be putting the
20 deadlines to that for our teams to make sure that gets
21 implemented, and then the administrative functions clearly
22 are ongoing going. But we also have the objective of doing
23 our cost-benefit analysis and having it by midyear of this
24 year so we can look at it and make certain that this will

1 make sense for everybody.

1 Finally, once that is accomplished, we will be
2 looking at the budgets for next year, 2003, 2004.

3 Then we have on our schedule a business
4 continuity plan which means how do we keep things going
5 forward.

6 And then finally the ancillary services part that
7 will be the tail end which is probably in the 2004 time
8 frame.

9 The other thing I wanted to highlight is we would
10 be more than happy to provide this Commission with monthly
11 reports, written or verbally, on how we are progressing,
12 because we have a strong commitment to getting this done,
13 and we want to make sure it happens quickly.

14 So with that I would be very happy to answer your
15 questions.

16 CHAIRMAN WOOD: Jim, thank you for coming today.

17 I think Nora had asked questions at our last
18 meeting about going live on the 1st and my report is that
19 has worked very well.

20 MR. TORGERSON: We did go live on 1st.

21 Always there are issues, but I think it is
22 actually doing better than most of us had expected.

23 There are still things we are working out right
24 now, getting our settlements done on a daily basis, but

1 that should be starting today hopefully, and I think things

1 are moving along extremely well.

2 Clearly we have more work to do. We have a long
3 way to go. But we did get up and running and running the
4 tariff.

5 CHAIRMAN WOOD: I congratulate you and all the
6 folks behind and besides you that made that happen.

7 I want to make sure that as they go forward in
8 the market design that we have significant staff
9 involvement there. I think the monthly reports sound like
10 a great idea. Certainly in writing would be easier for all
11 of us to scan around it.

12 Clearly you are the one. You are the bird in the
13 hand. We want to keep an eye and make sure that anything
14 you need to support staff in light of what Nick just
15 reported from SPP.

16 We know that the filings are coming and from our
17 level we can keep them on the front burner and really
18 facilitate whatever regulatory time frames that would be as
19 short as we can possibly make them consist with good due
20 process.

21 Again, we strengthen the stakeholder process that
22 has led up to the Midwest and PJM and SPP over the years.
23 It really makes this effort on our side of the fence a lot
24 more speedy.

1

So the fact that you all worked this through

1 stakeholders, there maybe some issues. Again there's not
2 100 percent consensus. You know that's what we do which
3 look at those things.

4 I do like the processes that you all have done.

5 You mentioned ancillary services. What is it you
6 were talking about when you mentioned ancillary services?

7 MR. TORGERSON: We are going to be doing the
8 energy market first and then the ancillary services that
9 follow along with the transmission because we just feel
10 it's going to take little longer to get that up and
11 running.

12 CHAIRMAN WOOD: So in the interim what will the
13 people do for transmission? Do they buy from the
14 individual utility or tariff?

15 MR. TORGERSON: No. We will be doing it. Rather
16 than having the one-stop shop or the ancillary services
17 they will be going to each of the RTOs as do today for the
18 ancillary services, but our objective is to get there as
19 quickly as we can. It's just we feel it may take a little
20 longer.

21 CHAIRMAN WOOD: Oh, you're are saying that
22 ancillary services will be one set of three?

23 MR. TORGERSON: Yes.

24 CHAIRMAN WOOD: Okay. I've got it.

1

MR. TORGERSON: Yes.

1 CHAIRMAN WOOD: What level of guidance -- since
2 we are talking about a significant part of the eastern
3 interconnect here that is being discussed, I think we will
4 talk about another significant part in a moment -- but what
5 sort of guidance is helpful to a common market design or
6 common wholesale energy market that this Commission can and
7 should give in the giganova process versus what is good for
8 that kind of work through this broad collection of
9 stakeholders from across the country through your process?
10 I mean far do you think will be is useful for you guys in
11 what we do or what we're doing in RMO 112?

12 MR. TORGERSON: I think the guidance that you
13 give early on will be very helpful because we have to put
14 this system, in and we are going to be working directly
15 with your staff, with the staff of the Commission on our
16 process.

17 So I think the earlier we have guidance the
18 better off we are going to be.

19 I think making certain that people participate --
20 I mean I know we'll get the marketers and the
21 stakeholders. There are a few blanks yet. I think we want
22 to make sure we feel those in.

23 I have had some discussions with people at TVA
24 already, and I think they have some interest.

1

So I think we are going to move it along, but it

1 is making certain that people are participating.

2 I'm not sensing any hesitation.

3 I believe the Alliance companies have indicated
4 they would like to participate also.

5 So I think we are going to be getting there
6 pretty quickly, but time and having it identified what the
7 Commission is going to want in the standard market design
8 quickly is going to be our best ally.

9 CHAIRMAN WOOD: In the IT assessment that you
10 talked about going on high level in 90 days, are the issues
11 that came up in December related to the Alliance are they
12 being reviewed in that as well or is that kind of waiting?

13 MR. TORGERSON: Actually, the 90 days for the IT
14 is kind of the architecture. We are going to be looking at
15 not necessarily with the Alliance, with PJM, SPP, Midwest
16 ISO. We would encourage the Alliance to be part of that
17 and then see what kind of systems they have that could be
18 utilized also so we are not having stranded assets.

19 CHAIRMAN WOOD: You see where I am going?

20 MR. TORGERSON: Yes, sir.

21 CHAIRMAN WOOD: I would like to address the
22 schedule. I want to make sure that all the people get on
23 the train as it's leaving the station.

24 MR. TORGERSON: Thank you.

1

COMMISSIONER MASSEY: You may have mentioned

1 this. But in this common market roughly how much load is
2 there? Is it roughly 240,000 megawatts?

3 MR. TORGERSON: I think we said not counting the
4 Alliance it is 180,000 megawatts. If you add in the
5 Alliance you are probably up to -- that's another 5,000 or
6 10,000. So you are looking at 290,000, I think.

7 CHAIRMAN WOOD: On that issue one of the things
8 on the very last panel last week on software that came out
9 from the audience questioning was -- and your consultant
10 was very good at participating in that week by the way --
11 was that it would be difficult for a region with that many
12 generators and that much load to operate as a single energy
13 market.

14 I guess my thought in reaction to the number you
15 just gave Bill was even if one program can't solve the
16 whole region at once, and that may be what I expect it
17 probably would, based on what we heard last week. It's
18 useful multiple programs run under one roof and one
19 protocol and all that.

20 I look forward to that. I was very intrigued by
21 that issue.

22 Nora, I know you talked about that as long as I
23 have known you.

24 But the software issues are pretty deep. If they

1 are at all kind of pushing the edge that's when I would

1 rather pull back from to we make sure that is in very good
2 hands.

3 So multiple under one roof certainly does diverge
4 from the concept of a common wholesale energy market that
5 you all have brought forward.

6 MR. TORGERSON: One of the things we're looking
7 at doing is how we take care of this vast system, and we
8 are looking at either hierarchial approaches or dispersed
9 approaches where it does come all together under one so
10 that we won't necessarily be trying to do everything at one
11 shot with the software.

12 But we will look at that, too. I mean they
13 haven't done the assessment yet.

14 The person who was here -- Roberto Politsa --
15 he's actually an employee of the Midwest ISO. His title is
16 principal consultant, but he is an employee. He's a very
17 senior employee.

18 COMMISSIONER BROWNELL: Pat, what I took away
19 from the conversation was that we did not yet know whether
20 the software existed to support something of this size and
21 that it simply was something that needed to be explored and
22 tested.

23 In fact, the cautionary care to us from everybody
24 was when we are taking making these decisions we need to be

1 testing with the software providers along the way.

1 I don't think he said it couldn't be done. It
2 was just we didn't know.

3 CHAIRMAN WOOD: To me to get the best of both
4 worlds is good ahead and say look if we need one or three
5 we'll do them all in the same shop, and it if it's the
6 mainframe -- that's an old word.

7 COMMISSIONER BROWNELL: I hope you're not
8 reaching that.

9 CHAIRMAN WOOD: If they have three different
10 systems right here and they all working off the same basic
11 platform, they may just stick nice with each other. I can
12 live with that.

13 To me a vision in the state of the market would
14 be great to accommodate that. But I don't think that to be
15 fatal flaw.

16 That was a good situation. It was your feeling
17 to look at kind of flagged it up as you are getting this
18 big. We want to make sure that big isn't too big.

19 MR. TORGERSON: That's right.

20 COMMISSIONER MASSEY: Let me ask. There may be
21 aspects of a common market that don't necessarily require
22 precisely the same software elsewhere everywhere too.

23 It seems to me you can do planning and take care
24 of some other aspects of a market without having precisely

1 the same software everywhere.

1 MR. TORGERSON: I think that's very feasible in
2 certain areas.

3 The ones where you have like the one-stop
4 shopping in the electronic scheduling you clearly want to
5 have one software packages.

6 Others where you are doing planning that's more
7 on a regional basis you could use things that are a little
8 bit different, but still have to work together because we
9 are going to bring things together through interfaces.

10 You don't want to get too far afield and at least
11 have the same architecture so you are always on the same
12 platform.

13 COMMISSIONER MASSEY: I agree with that.

14 COMMISSIONER BREATHITT: I am wondering if --
15 this is something that just popped into my head -- if you
16 can end up with market power issues that arise if you have
17 flaws in the software program and it encompasses such a
18 huge area if you could end up with some pervasive
19 problems.

20 I guess that's something that the new MOI office
21 would detect and then they could be corrected.

22 MR. TORGERSON: Yes. And our independent market
23 monitor will be looking at exactly what we're doing and the
24 market operation office of the Commission will be looking

1 at it, too.

1 As I said before, we going to be providing our
2 data directly to the Commission and then the state
3 commissions.

4 Hopefully if there is something that's not going
5 correctly and someone is gaming the system that it is found
6 out immediately. But with that big a market hopefully it
7 won't happen, but we'll all be on guard against it.

8 But I see your point.

9 CHAIRMAN WOOD: You're telling us that despite
10 the breadth of the market there could be some fault in the
11 software that would cause power problems.

12 MR. TORGERSON: Yes.

13 CHAIRMAN WOOD: That's a great point.

14 I think saw a little of that in the older case
15 since I have been here with New England where the software
16 resulted in some problem, online problem.

17 MR. LARCAMP: Could I just address one clarifying
18 point?

19 The monthly reports I assume would be
20 informational filings with the Commission so that we won't
21 be getting another round of comments on each one of those,
22 and I assume that at least three organizations do a great
23 job of stakeholder outreach, but I assume the copy of those
24 will be directly e-mailed to the state commissions and

1 state governors offices and which ever state consumer

1 advocates that would be interested in what is going on so
2 that they could directly updated as we are.

3 MR. TORGERSON: Yes. We will provide
4 informational filings and post them on our on website as we
5 do with all of them. We e-mail everything to stakeholders
6 as soon as it goes on our website. So we will continue
7 that.

8 Thanks.

9 CHAIRMAN WOOD: Thank you very much.

10 SECRETARY SALAS: The next presenter this morning
11 is Mr. Richard Wodyka from PJM who will be addressing PJM's
12 expansion plans.

13 MR. WODYKA: Good morning. It's my pleasure to
14 be here today to give you a little bit of an update on what
15 is happening with PJM.

16 I thought I'd first try to share with the
17 Commission that we share the Commission's vision of
18 coloring in the map, as the chairman likes to characterize,
19 for a competitive marketplace across the nation.

20 We think PJM is in a good position to facilitate
21 that. From what we have developed in the mid-Atlantic
22 region, it helps to bring value to the consumers and some
23 market participants through a competitive marketplace in
24 our region.

1

Despite what some people may say, PJM is not

1 about individuals. It's really about a process that we
2 have in place that has open planning and operating rules
3 under a competitive marketplace, and these rules and market
4 design were not of just PJM's making but really were
5 through this open collaborative stakeholder process and
6 through a lot of hard work, a lot of it through sweat.

7 Through a lot of activities, we have come to a
8 design that five years ago we started out with. There was
9 a very good design at the time, but we have evolved in five
10 years to a current design and that as reflected a
11 significant amount of changes over those five years.

12 I think we filed over 200 different filings with
13 the Commission changing our operating, our planning, our
14 market rules to continue the evolution of the marketplace
15 in the mid-Atlantic region, again to bring value to the
16 consumers.

17 So from our perspective this is not really about
18 geography. Really what it's about is market and
19 competition.

20 I think that the Commission has that vision of
21 putting competition out through a competitive marketplace,
22 and we support the development of a standard market design
23 through the Commission's activities.

24 I did want to report to you on three specific

1 initiatives today.

1 The first one is our PJM West start-up. From our
2 perspective PJM West is the ultimate proof of concept for
3 our standard market design. It can be operated over
4 multiple control areas and multiple reliability councils.

5 We are grateful for the Commission's recent order
6 expressing interest of getting PJM West started up on March
7 1.

8 PJM's perspective is we are really standing by,
9 ready to go, staffed up, hired people. They have been
10 trained. The infrastructure has been put in, the facility
11 has been put in now, and we're ready to go.

12 Unfortunately there is a procedural snag at this
13 time, and that had to do with -- because I'm sure that the
14 magnitude of the all the other proceedings that were going
15 on in the fall that the order that just came out in
16 January, while it approved all of PJM West's compliance
17 activities, it did set the Allegheny's transmission rates
18 for hearing and that has produced a little bit of a glitch
19 in that since this was just set for hearing in January
20 Allegheny has requested rehearing on this sort of to seek
21 out clarity of the scope of the transmission rates
22 hearings.

23 In this rehearing they have requested that the
24 Commission give them expedited hearing on this even so much

1 if it could be done this month and we could go operational

1 with PJM West on April 1.

2 Officially PJM has no position on the Allegheny
3 rates but just to point out that this uncertainty with the
4 Allegheny rates could postpone the implementation of PJM
5 West for some time.

6 We don't believe this is really what the
7 Commission intended, and we do think that you can provide
8 clarity to this rate hearing process and address through
9 this thorough review and due process all the rate protests
10 that came in through the PJM West filings.

11 This is really important for not just PJM and
12 Allegheny but the five states who have supported this
13 implementation for the last year or so.

14 And I also believe that this is one of the
15 critical pieces of the puzzle to address the Midwest and
16 Alliance issues as far as being able to solve a competitive
17 marketplace.

18 Unfortunately Alliance sits between the MISO and
19 PJM.

20 So in coloring in the map, as the Commission
21 would like to do, we are supportive of that. We need to
22 get the resolution of Alliance on how that is going to work
23 out.

24 Just to comment a little bit on the MISO, PJM and

1 SPP market initiative that Jim has just given you the

1 overview and presentation on:

2 From a PJM perspective we are very excited and
3 very committed to this initiative.

4 We think that this is going to further the
5 industry. We think that this is going to really solidify
6 competition in markets across the nation.

7 From our members' perspective -- and that's an
8 important perspective that you should understand -- our
9 members do more business with the Midwest, twice as much
10 business with the Midwest as we do with our systems to that
11 are north of us like the New York ISO.

12 So, again, while past practice may not be an
13 indication of future activity, we do believe that the past
14 practice of how the market activities have come into PJM,
15 the Midwest and the Southeast, are very viable to
16 competition in the mid-Atlantic areas.

17 Even our recent cost-benefit analysis that we did
18 as part of our support of states in the Northeast RTO
19 indicated that one of the things that would benefit both
20 PJM and New York would be a stronger competitive
21 marketplace Southeast of PJM and in the Midwest. So we are
22 supportive of that.

23 The third initiative that I wanted to give you
24 some background on is PJM and the Southeast, the SeTrans

1 independent system administrator.

1 PJM was requested to submit its qualifications to
2 become the independent system administrator for the SeTrans
3 geography.

4 We have evaluated that, and in our evaluation
5 that independent system administrator would do almost all
6 the same functions that PJM does today.

7 The initial market that is being proposed in that
8 geography is very similar to the PJM marketplace we have
9 today.

10 So we are very supportive of that.

11 We believe our marketplace can handle municipals
12 and co-ops, generation, merchant generation as well as
13 vertically integrated utilities in this marketplace.

14 So we are very favorable for trying to become the
15 independent system administrator in that geography.

16 We think we could help jump start that region of
17 the country through our support, and if we get the
18 opportunity to be the independent system administrator for
19 that area we think we could provide value to the customers
20 and the market participants in that geography.

21 One of the things in the geography, though, is
22 we're not connected obviously to the Southeast. Again
23 Virginia Power stands between us and the Southeast, and
24 again this revolves back to an Alliance issue.

1

Obviously, Virginia Power is a member of the

1 Alliance group, and again this is a critical issue for
2 deciding how Alliance is going to move forward.

3 Once that decision is made we be even then able
4 to color in the map even further for the Commission.

5 So just in summary I think one of the fundamental
6 things that the Commission has done for PJM recently is the
7 need to put the markets first in a regional structure.

8 That in your Alliance order was very fundamental
9 for PJM's vision of establishing competition in markets as
10 we move forward.

11 A competitive marketplace doesn't just facilitate
12 generation competition. It really does facilitate a
13 competitive marketplace where generation, transmission and
14 load on demand side management process can be in the
15 competitive marketplace, can then try to take advantage of
16 their material interests and their fiduciary
17 responsibilities to their stakeholders.

18 So, again, we are very supportive of keeping the
19 word competition and markets as the main thing, and we want
20 to keep the main thing the main thing and support the
21 Commission in doing that.

22 I appreciate the opportunity, and I'll to address
23 any questions you might have.

24 MR. LARCAMP: Mr. Chairman, I just want to

1 interject and say the staff is aware of the motion for

1 clarification. There was heavy e-mail traffic in last
2 couple days, and we will be bringing that for judicious
3 resolution by the Commission.

4 CHAIRMAN WOOD: Any questions? Any questions for
5 Richard on PJM?

6 Thank you.

7 MR. WODYKA: Thank you.

8 COMMISSIONER BREATHITT: Richard, you said you
9 were requested by SeTrans.

10 MR. WODYKA: We were invited. I'm sorry. That
11 may have been the wrong word. We were invited to submit a
12 request for qualifications to their process. I believe we
13 are one of seven respondents who have interest.

14 COMMISSIONER BREATHITT: Thanks.

15 SECRETARY SALAS: Mr. Chairman and Commissioners,
16 the final presentation this morning is by Mr. William
17 Newman of the Southern Company who will address the SeTrans
18 proposal. Accompanying Mr. Newman this morning is
19 Mr. Frank Gallaher, a representative from Entergy
20 Corporation.

21 MR. NEWMAN: Thank you for allowing us to be
22 here. We've made some significant progress with SeTrans
23 and look forward to reporting that to you.

24 One thing, though, to the point you just had, I

1 need to say that the request for qualifications was sent

1 out by the transmission owners group to try to get a jump
2 start on anybody that might be interested. It was sent to
3 those in existence that we knew about and others that we
4 thought might have an interest, and it was also posted on
5 our website.

6 And since then there was the proceeding of the
7 Stakeholder Advisory Committee. They asked that we do that
8 again, and we've done that again, and we have I think maybe
9 a few more than the seven respondents that you were talking
10 about just to put that in place.

11 It was not a total blanket because there were
12 some that we knew that were in the business and had
13 experience. We wanted to be sure that we got to those as
14 well as others.

15 Today I will be reporting where we are, what we
16 have accomplished at this point.

17 The structure of the owners committee at this
18 point is about 10 players, all with the title of the same
19 footing.

20 Our structure, unlike some of the corporate
21 structures you talked about, is collaborative effort
22 between those entities as well as now the Stakeholder
23 Advisory Committee.

24 The point of all this is I don't speak as a

1 chairman, CEO or any of the other things as your previous

1 speakers have, but representing as I understand the
2 position of those owners.

3 I will begin by giving you a little history. I
4 think it is important to see where we are now.

5 The Southern Company worked with the public power
6 companies, particularly MEAG, GTC and Dalton, that were the
7 ITS joint owners in the state of Georgia in early 2000
8 which that was the basis of an October 2000 filing which
9 was partially rejected by the Commission.

10 Subsequent to the October 2000 filing, we begin
11 working, this Southern Company, at this point with other
12 public power entities who expressed an interest in the
13 SeTrans concept. There were eight others at that time.

14 All the SeTrans participants were actively
15 involved in the mediation process in the Summer of 2001 as
16 well as many other utilities but all of those were done in
17 the Summer of 2001.

18 We learned much from the interchange of ideas and
19 modified our basic proposal of a RTO.

20 After that mediation process, we included the
21 Stakeholder Advisory Committee with a structure very
22 similar to the one used in Florida in fact.

23 Also, locational marginal pricing which of course
24 was a change from cultural rights versus financial rights.

1 We learned quite a bit from that process.

1 In the Fall of 2001 Entergy joined in the effort
2 and the overall proposal was modified and improved. The
3 addition of Entergy increased the scope tremendously.

4 SeTrans stretches from Texas to the Carolinas,
5 and I could give you some other additional statistics, but
6 as long as you have a mental picture it is a very large
7 area in terms of megawatts of capacity and transmission
8 lines.

9 We filed a status report with the Commission on
10 November 20 that specified the basics of the SeTrans
11 transmission owners proposal.

12 By the way, those transmission owners, we talk
13 about collaborative process and the need to get commonality
14 before we bring the issues to the Commission, to my way of
15 thinking one of the major accomplishments at this point,
16 because when you count the heads, it is mostly public power
17 in terms of a head count and to bring those together to
18 bring a common view I think is very are helpful as well as
19 the other stakeholders.

20 An RFQ was issued on December 14, 2001, and
21 therefore the response that you heard about earlier, in
22 order to determine a preliminary list of those who might be
23 qualified to be the system administrator. You are all
24 familiar with the system administrator. It is an

1 independent entity that would become the RTO.

1 With the full provisions for the Stakeholder
2 Advisory Committee to seek additional candidates, that was
3 in the initial RFP. You heard some other comments about
4 that.

5 That was always the intent and has come about.

6 On January 14, 2002, Central Louisiana Electric
7 Company joined the SeTrans effort, and the first
8 Stakeholder Advisory Committee meeting was held in Atlanta
9 on January 15, following the stakeholder meeting on January
10 14 at which the Stakeholder Advisory Committee was elected
11 by the constituents of their sectors.

12 They chose though whatever election method odd
13 they wanted and how they would select their alternates and
14 what role the alternates would play and so on. That was up
15 to each of those sectors.

16 John Hughes of Elcon was elected chairman of the
17 Stakeholder Advisory Committee and has directed two
18 meetings at this point. One is going on today, the third
19 one. He also set five additional meetings, including the
20 one that's being held today.

21 The sectors of the Stakeholder Advisory Committee
22 are:

23 Investor owned utilities; power marketers and
24 brokers; generator owners and developers; transmission

1 dependent utilities, municipal joint action agencies and

1 munis; TDU co-ops; transmission owned co-ops; transmission
2 owned municipal joint action agencies and munis; state
3 government agencies, consumer advocates and environmental
4 interests, and by the way we don't have that particulars
5 sector populated but we think we will have that soon, one
6 particular one from Texas; industrial end use customers;
7 and then transmission owners or transmission dependent
8 utilities, federal utilities and state owned authorities,
9 such as Sandy Cooper and the Southeastern Power
10 Administration.

11 Also, the public service commission sector, which
12 is non-voting at their choice, can provide input to
13 the Stakeholder Advisory Committee and they can also
14 provide input to the utilities under their jurisdictions by
15 their traditional paths.

16 The Stakeholder Advisory Committee requested that
17 the RFQ be extended, and I mentioned that earlier, and
18 another RFQ was issued on February 26 to the state for
19 final response.

20 We have a few additional potential system
21 administrators as a result of that.

22 The market design document was distributed to the
23 public and the stakeholders on February 8, 2002.

24 The SeTrans market design proposal we believe is

1 very consistent with the Commission's current directions

1 and incorporates elements of FERC staff papers.

2 So we look forward to further development of
3 standard market model so we can get this thing working
4 sooner.

5 The Stakeholder Advisory Committee got a list of
6 preliminary selection criteria for the system administrator
7 and will complete this list at the next meeting on February
8 13 and 14, 2002. That will begin to be an interesting
9 process. Some ideal selection is being proposed there and
10 be qualified if they do what they want done, but I guess
11 that is kind of what we expect.

12 The proposed market design will be discussed with
13 the stakeholders on February 15, 2002. We set two full
14 days for opening comments and discussion after a basic
15 presentation of the concepts.

16 This market design will be discussed with the
17 Stakeholder Advisory Committee, but I make the distinction
18 here: The full stakeholder group will have an opportunity
19 to see presentations and discuss this on Friday of this
20 week and the full stakeholder group will have two other
21 opportunities to provide any comment input they want, so on
22 and so forth, and we set aside a few days for discussion of
23 those. The planning protocols --

24 CHAIRMAN WOOD: So Bill, you've got a discussion

1 that's Friday. Again, it is the market design document

1 that was circulated on the 28th?

2 MR. NEWMAN: That's right.

3 CHAIRMAN WOOD: That was generated.

4 MR. NEWMAN: By the transmission owners.

5 CHAIRMAN WOOD: So that's now out there to the

6 stakeholders advisory group to get incorporated on for the

7 broad stakeholders in that. They are doing that Friday.

8 MR. NEWMAN: All the stakeholders have it now.

9 CHAIRMAN WOOD: Okay.

10 MR. NEWMAN: And the Stakeholder Advisory

11 Committee has it also.

12 The Stakeholder Advisory Committee is probably

13 talking about it as we speak here today.

14 We wanted an opportunity where we focused the

15 full meeting on, not all of the other things that we have

16 to do with that particulars paper.

17 If you don't set that time aside, it will end up

18 being relegated to where it is one the last items.

19 We want to be sure we get all the input from

20 everybody that we can.

21 That paper by the way, again based on previous

22 models that have been put together, comments from the

23 Commission and FERC staff papers, is not exactly a brand

24 new, never seen before kind of a document.

1

I think it will be totally consistent with the

1 common models as it evolved.

2 The planning protocols paper will be distributed
3 to the stakeholders on February 22, 2002. The issuance of
4 the operating protocols, the system administrator retention
5 agreement, which we shorten to SARA, and the transmission
6 operating agreement with pricing revenue protocols and
7 tariff papers will follow soon after February 22. We have
8 a planned schedule for that.

9 A series of meetings have been scheduled to
10 discuss the basic documents and receive input and advice on
11 all of those.

12 The schedule calls for the SAC to select four
13 candidates for the system administrator, for the
14 independent system administrator (ISA) -- excuse me for
15 shortening those names -- by April 25, 2002. The owners
16 who participate on the Stakeholder Advisory Committee will
17 not vote on the selection of the four.

18 The transmission owners plan to select an
19 independent system administrator by May 15, 2002.

20 The transmission owners plan to submit the
21 following proposals for the Commission's consideration by
22 mid-May:

23 Market design document; planning protocol
24 document; operating protocol, the SARA or system

1 administrator retention agreement; transmission operating

1 agreement; and the open access transmission tariff.

2 Those three, the SARA, TOA and the open access
3 transmission tariff will be in pro forma because we would
4 be working with the system administrator and others to come
5 up with the final form, particularly the SARA and TOA,
6 which are especially contracts for them to do the job. So
7 we wouldn't be able to file those contracts without having
8 input from those and negotiation.

9 The negotiation of the final SARA and TOA will
10 take place in the summer of 2002, followed by a filing in
11 the fall of 2002 to seek final Commission approvals and to
12 transfer control of assets to the ISA, subject to approval
13 of our state commissions.

14 Subject to FERC approval by early 2003, the RTO
15 could begin operations by May 1, 2003, and I think when you
16 back up all the things that have to be done it's a very
17 aggressive scheduling.

18 We are being told by many stakeholders and I've
19 even seen some of the letters, that the schedule is much
20 too aggressive.

21 We are being torn in both directions. We want to
22 get this in place as soon as we can, and we can use many of
23 the things that have been done as you heard reported on to
24 make this process much faster than previous processes have

1 been. We want to anticipate that. Therefore, we have an

1 aggressive schedule.

2 The operation on May 1, 2003, will include
3 essentially all of those functions that I think that we and
4 you want to be sure are independent:

5 OASIS, scheduling, planning and operations
6 oversight, security coordination, facilities and staffing.

7 Now in addition to that, the full functioning of
8 the market will be sometime after that, but at least at
9 that point you would have the independent system proceed.

10 SeTrans participants, Entergy and Southern signed
11 a memorandum of understanding with TVA on July 25, 2001,
12 having to do with working out a common tariff arrangement,
13 ATC calculation, parallel flow issues, future planning, all
14 of those things, and progress has been made on agreement
15 for actions, and there's an outline of that, and I expect
16 progress particularly on the ATC soon.

17 SeTrans participants also signed a memorandum of
18 understanding with the three GridSouth participants on
19 January 14, 2002. That is where there is a similar purpose
20 to work out seams issues and ATC, and make one market work
21 for the whole region. We all have that common goal.

22 We don't know for sure. None of us can respond
23 for the future. GridSouth is whatever that might be.
24 Working those things out stands in the best interests of

1 having a common market in the region.

1 We look forward to working with the Commission,
2 and we of course had staff people present at some of these
3 meetings, to finalize the development of the RTO for our
4 region that meets your goals while respecting the legal
5 requirements of the wide range of individual participants
6 in the SeTrans effort.

7 I think that we can do an awful lot concurrently
8 to speed up that schedule if after we make that filing we
9 can get some guidance from the Commission, but we will have
10 all that in final form because the system administrator
11 would have some elements that would need to be negotiated.

12 I think the market design that you are working on
13 would help to make that effort go much more quickly.

14 With that I would be glad to answer any
15 questions.

16 Frank, do you have anything you want to add?

17 MR. GALLAHER: No.

18 CHAIRMAN WOOD: How does the governance
19 arrangement that you envision for SeTrans compare to like
20 some of the other ones we just heard about?

21 MR. NEWMAN: I think it may be significantly
22 different. There may be a way to match those, particularly
23 if one of those entities met the qualifications and
24 criteria for being the system administrator.

1

To start off with, we would look to find an

1 entity that had experience in operating electric systems
2 and markets that was independent and you can list that
3 independence criteria for forever, but the final judge of
4 that is four or five commissioners, but that has a
5 responsibility for operation of the electric system and for
6 being certain that all the economics are met.

7 Our view was that entity would have a preexisting
8 board. We did not envision a stakeholder board. Obviously
9 everyone is a stakeholder in some fashion but not stacking
10 it as a stakeholder board.

11 We think that is a certain formula in the region
12 this large to ensure that progress is made over the long
13 run.

14 I'm editorializing here. I have to be cautious
15 that you don't interpret all entries with SeTrans label in
16 it. I believe that personally.

17 So there they have their own board. It is, by
18 the way, the same model we presented in that respect last
19 summer in the industry process.

20 Some have suggested, and you may have seen a
21 suggestion along this line, that we should stop progress
22 until we name a board and then later name the system
23 administrator.

24 That is absolutely opposite of where we intend to

1 go.

1 My comment earlier about those who were proposing
2 criteria, take a little casualty there, but as you see
3 that list of criteria each person is proposing those in
4 many cases are personal interests as opposed to criteria in
5 general that that system administrative would need.

6 CHAIRMAN WOOD: What has the reaction of the
7 Stakeholder Advisory Committee been to the narrowing to
8 four and then the TO is picking the one?

9 MR. NEWMAN: It depends which ones you are
10 asking. That's the track we are on now.

11 I think some who have been involved in other
12 processes would prefer to change this, but I think it is
13 pretty well accepted. That's the course we are on, and I
14 think one of the reservations they have had, and you
15 probably heard this already, is that in the end result the
16 transmission owners are the dominant voters in this
17 process, and that's simply not the case.

18 There are seven of the sponsors on the
19 Stakeholder Advisory Committee, and none of them will vote
20 in this selection to the final four. There are 11 others,
21 including federal, state, utilities such Cigal,
22 transmission dependent municipalities, transmission
23 dependent co-ops, generators, power marketers, industrial
24 customers, and I think we will have consumer advocates at

1 the next one.

1 So it depends. I hate to represent here. You
2 will hear all views on all subjects subject before this
3 over. I am confident of that.

4 CHAIRMAN WOOD: Do you have anything to add?

5 MR. GALLAHER: No, not really, Mr. Chairman.

6 I would say, though, I think the reaction overall
7 in the Stakeholder Advisory Committee, even not counting
8 the transmission owners on that committee, has been
9 positive to the progress that we have made. And the fact
10 that the particular design of having someone who has
11 experience at this I think has been received positively as
12 well.

13 CHAIRMAN WOOD: I don't think there is a single
14 formula for generating a RTO. I think we have been pretty
15 clear about that in our orders including those in
16 December.

17 I think the ultimate test is you get to the
18 result that creates a market that the stakeholders think is
19 a viable market for serving their customers in, and not
20 only the big ones, but all the small ones you all reached
21 out to.

22 I want to state publicly I applaud you for that.

23 We learned from Judge McCartney's report back in
24 September or October how different it is in the South with

1 the plans of broad footprint of public power that you are

1 interconnected with throughout your whole region. That's
2 an important accommodation to make in light of the federal
3 law leaving them out.

4 I think your footprint is certainly together,
5 and I appreciate we haven't had a chance to publicly talk
6 to you two all together, but you all come together, coming
7 on board.

8 Bill, can you flesh out again what the nature of
9 your discussions with GridSouth was?

10 MR. NEWMAN: Yes.

11 They have signed a memorandum of understanding
12 that essentially is the same as we signed with TVA.

13 The purpose of that is to be sure that as we work
14 out the market, everything, every element of this, that
15 they can come in, and we can learn from what they have
16 already learned as well as to go ahead and address as best
17 we can the issues of ATC, make sure that congestion
18 management is consistent across the seams and maybe even
19 eliminate those seams with the idea that we -- I only speak
20 for Southern, and I also speak for Entergy, and Frank can
21 correct me, but we discussion many times -- I believe that
22 including the GridSouth area into the market and making it
23 a seamless market is one of the critical elements.

24 To me that's sort of a measure of success if we

1 were able to do in whatever means. Then that will be a

1 major accomplishment.

2 It will also enlarge the area that we are talking
3 about.

4 They have not signed the participants Tennessee
5 agreement that the rest of us have signed.

6 They have something that is at least -- and you
7 correct me if I use the wrong term -- conditionally
8 approved by the Commission. That process is going on each
9 of their states as of today, to my knowledge, that the
10 states are trying to reach some conclusion on.

11 So until those things are resolved and even
12 possibly after that, they might not be able to sign the
13 participant agreement. But we found a way to include all
14 their input and get the best knowledge they already
15 gained.

16 They are all in the same region and undoubtedly
17 will be affected by whatever we put together and us by
18 whatever they put together.

19 CHAIRMAN WOOD: And anything with the
20 Floridians? Are they observing or what?

21 MR. NEWMAN: I could mention two Floridians we
22 worked very closely with, and that's Bill Hensen with AEA
23 and Bill Holloman.

24 I would only speculate. This would have to be

1 not SeTrans but speculation. But when we build on

1 speculation it's not going to make progress, it's not worth
2 much.

3 As to what we might do with the utilities that
4 have been involved in Grid Florida, considering when their
5 state commission down now, and you know more about that
6 than I.

7 MR. GALLAHER: Most participants in Florida were
8 in attendance at our large stakeholder meeting at which we
9 elected the stakeholder advisory committee.

10 CHAIRMAN WOOD: That's Entergy. Does the state
11 of the proposal right now still have Entergy's ITC
12 concept? Where is that stated?

13 MR. GALLAHER: Yes, it does.

14 CHAIRMAN WOOD: And the board and all that this
15 Commission has already addressed in an early order?

16 MR. GALLAHER: Yes.

17 MR. CANNON: Mr. Chairman, this has changed from
18 what we saw in Atlanta. The RTC proposal is very important
19 but it's limited in respect that it basically is intended
20 to handle explosion decisions is our understanding within
21 their footprint pursuant to oversight following the ISA and
22 ISO protocols and we went into also to address pricing
23 issues. But all of the other functions as I understand it
24 would be performed by ISA.

1

MR. NEWMAN: That is correct.

1 COMMISSIONER MASSEY: I would like to commend
2 both you for your efforts here.

3 Obviously, the proof will be in the ultimate
4 pudding, but it sounds like you've made substantial
5 progress.

6 There are significant developments, and I know
7 this is very hard work. We still have a lot of work to do
8 with the state commissions in your region as well as some
9 of them have expressed ambivalence about this whole
10 effort. So we know we still have a lot of work to do. We
11 appreciate your efforts.

12 Based upon what I'm hearing here today, it sounds
13 like it is generally moving in the right direction.

14 I'm sure this question of who selects the ISA
15 will ultimately be fairly vetted here at the Commission by
16 those who like your proposal and those who don't like it.

17 So that will be a hot-button issue, but it seems
18 to me that you are making extraordinary good faith efforts
19 to get this going.

20 MR. NEWMAN: Thank you.

21 COMMISSIONER MASSEY: In regard to who selects,
22 makes the final selection of the system administrator, if
23 the Stakeholder Advisory Committee brings forth four
24 candidates, they should all be satisfactory in your view.

1

The final selection of those is particularly

1 critical to the transmission owners because of their
2 obligation, be they public power or an obligation through
3 legal requirements, but in the case of joint action
4 agencies and GNTs, and so on, to meet their commitments to
5 their customers is such that as they have already committed
6 to have this transmission system that you may have invested
7 in and must keep it reliable, and I can defer that
8 specifically to the IOUs in state commissions.

9 And if they can point to collectively that
10 qualified, in my opinion qualifications, the two most
11 important ones are experience in operating electric systems
12 so you don't collapse the thing. The other is experience
13 operating markets.

14 Then I think it goes a long ways towards solving
15 some of the problems that we might have and possible
16 jurisdictional debate with state commissions, because they
17 still hold us accountable.

18 I know you know this, but it is awful important
19 to us of us that operate electric systems to keep the thing
20 around.

21 And having that choice after you have four
22 candidates that have been accepted by the full state
23 advisory committee.

24 I think it is a very sound process and helps with

1 some of those concerns.

1 COMMISSIONER BREATHITT: Bill, what percentage of
2 your footprint is public power?

3 MR. NEWMAN: Goodness. I can run those numbers
4 for you quickly.

5 COMMISSIONER BREATHITT: Not megawatts. Is it 50
6 percent or what?

7 MR. NEWMAN: You know, the footprints of some
8 these is like this with the IOUs.

9 In particular I'll give you an example of South
10 Mississippi. There are two transmission systems that touch
11 one place. So they cover the geography, very similar
12 geography. That's the South Mississippi Electric Power
13 Authority and Mississippi Power.

14 In Georgia the largest of the transmission
15 systems of Southern is a jointly owned systems, and they
16 own transmission based their load ratio.

17 So even the lines that were previously owned one
18 by the other, they integrated all those together. They are
19 not severable.

20 This would it make it so critical. It is
21 essential. I don't see how you could do otherwise.

22 It's the same total system. The strongest
23 advocates are RTS members.

24 The one in Georgia, the one I can point in public

1 power owns about 43 percent of the transmission systems.

1 That's a very close number.

2 We calculate those ratios every year to settle up

3 on this. It is about that number.

4 In other areas like in South Mississippi it is --

5 I can't calculate those numbers of it. It is a significant

6 part.

7 I hope I have answered your question. I can

8 generate statistics but I don't have it off the top of my

9 head.

10 COMMISSIONER BREATHITT: You mentioned just a bit

11 ago joint action agencies.

12 MR. NEWMAN: Yes.

13 COMMISSIONER BREATHITT: They are operated by

14 those JAAs?

15 MR. NEWMAN: Yes.

16 In the case of Municipal Electric Authority of

17 Georgia, my best example I guess is a group, and there

18 about 48, I believe, and MEAG has contracted with the

19 Southern Company to operate the transmission system control

20 areas and at this point security coordination.

21 They are responsible to their customers. Their

22 customers look to them to provide them transmission

23 services. In fact it's part of a legal document. So I

24 shouldn't speak for them. Some of them are here. Several

1 of these folks are here today. If I get it wrong I am

1 going to count on them jumping up.

2 But they have legal requirements that they
3 provide the transmission service to those in the previous
4 contracts.

5 So they are several other joint action agencies,
6 and I'm probably going to mention a few. There are others
7 in the footprint that are not at this point transmission
8 owners, such as I believe Municipal Power in Mississippi,
9 may be one of the joint action agencies, but MEAG is the
10 one that jumps out at me first.

11 COMMISSIONER BREATHITT: And the two Florida
12 members are TO members, but they are public; they own the
13 transmission ore are they transmission dependent?

14 MR. NEWMAN: No.

15 All of the members of the transmission owners
16 group, those who eventually will have to deal with the
17 control of dealing with me in a filing somewhere, all of
18 those are transmission owners, and I'd rather not off the
19 top of my head -- I'd probably miss one. I would never
20 live that down.

21 Give me a second. I'll be sure. I'll have to do
22 it off the top of my head.

23 Obviously, you know the investor-owned
24 utilities.

1

The SeTrans sponsors include the City of

1 Tallahassee, Cleco Corporation, Dalton Utilities, Entergy,
2 Services, Inc., on behalf of Entergy Arkansas, Inc.,
3 Entergy Gulf States, Inc., Entergy Mississippi, Inc., and
4 Entergy New Orleans, Inc., Georgia Transmission
5 Corporation, JEA (formerly Jacksonville Electric
6 Authority), MEAG Power, South Carolina Public Service
7 Authority, South Mississippi Electric Power Association,
8 and the Southern Company Services, Inc., acting as agent
9 for Alabama Power Company, Georgia Power Company, Gulf
10 Power Company, Mississippi Power Company, and Savannah
11 Electric and Power Company.

12 These are all the transmission owners, and I
13 believe looking at that list all the generation owners,
14 too.

15 COMMISSIONER BREATHITT: Thank you.

16 MR. CANNON: Mr. Chairman, as I recall in the
17 participation agreement there is a listing of the net book
18 value of the various transmission systems.

19 As I recall the public power was well over \$1
20 billion in terms of net book value. I think it was closer
21 to \$2 billion bill.

22 MR. NEWMAN: I'm comfortable with that. That's
23 in the range because I'm particularly familiar with BH and
24 GGC. So that sounds right.

1

And just by those it comes out to well over \$1

1 billion in total net investment.

2 The total net investment is the reason we're
3 talking about is over \$9 billion, and these are not for net
4 investments so much as how it's depreciating.

5 We're talking about an awful lot of transmission
6 assets: 53,000 miles of transmission lines. It is a big
7 area.

8 COMMISSIONER MASSEY: It's my understanding that
9 this independent system administrator will be under your
10 proposal a for-profit independent system administrator?

11 MR. NEWMAN: That's a great question. I'll pass
12 on that.

13 COMMISSIONER MASSEY: Thank you very much.

14 MR. NEWMAN: I'm just trying to characterize that
15 question you can debate on forever and ever.

16 COMMISSIONER MASSEY: I would just like to
17 understand how it would make a profit.

18 MR. NEWMAN: If we need to put label on it we
19 can.

20 That system administrator would work for a fee
21 and if they did extremely well, like our law firms, I hope,
22 if they do extremely well, the fee might be higher and then
23 that's a profit.

24 It's some margin above their costs, and their

1 board would have the responsibility to ensure that their

1 business would run in a business-like fashion.

2 Now, the reason that it is little dangerous to
3 say for-profit, unless you qualify it that way, is the fact
4 that some would look at it and say this is \$9 billion of
5 investment, and a lot of for-profits earn off of the
6 investment that they are managing, controlling or
7 whatever.

8 A new tenths of a percent of \$9 billion or \$11
9 billion is a lot of dollars.

10 Ten percent or set the number at 15 or 20
11 percent. End of year incentive on the operating cost of a
12 RTO is a much smaller number.

13 It has a fee with the potential for the fee being
14 larger based on quality of performance. I kind for-profit
15 profit.

16 But not to confuse it with the nature of somebody
17 who has billions of dollars of investment in for-profit is
18 generally considering overall investment expenses and all
19 the rest.

20 COMMISSIONER MASSEY: In other words, what you're
21 saying is for-profit is generally assumed to mean you make
22 a profit on your asset base?

23 MR. NEWMAN: That's correct.

24 COMMISSIONER MASSEY: Will this for-profit

1 institution make a return based on its asset base or based

1 on some other criteria?

2 MR. NEWMAN: Some of that is not absolutely
3 resolved, but the asset base that we are talking about at
4 this point being the transmission investment, no, they
5 would not own that.

6 Now, their asset base might include computers,
7 office buildings, whatever, other things.

8 I would expect that they would earn a return on
9 that, whether it was explicit in terms of some calculated
10 return that you might approve, or whether it was implicit
11 in terms of an overall fee. I don't know the answer to
12 that.

13 We are going to have to see who we get that steps
14 up and who wants to make a proposal and that would be part
15 of that negotiation of the SARA and the TOA.

16 I'm not trying to evade your question, but again
17 that's part of this process we're going through, but I
18 don't see them owning -- in fact it is one of the criteria
19 we have been very firm on. It would be a transmission
20 owner to participate in the market in this region.

21 COMMISSIONER MASSEY: I notice Craig Glazer is
22 out there and others from PJM. PJM is a for-profit
23 institution. Am I correct?

24 MR. NEWMAN: You are correct.

1

MR. GLAZER: Do you want to answer that.

1 COMMISSIONER MASSEY: I'm just curious.

2 MR. BROWN: It's a LLC incorporated in Delaware.

3 It is a for-profit LLC. Any profits we have made through
4 other activities, which we have, have been rolled back to
5 reduce our costs to our membership.

6 COMMISSIONER MASSEY: Does it sound similar to
7 what they are proposing or how would it differ?

8 MR. BROWN: It could be set up that way.

9 You know, again we are a for-profit entity. If
10 we took those profits and figured out how much profit we
11 anticipated, that could be a profit margin for PJM, for
12 example.

13 Like I said what we have done is we have gained
14 profits from our activities. We have lowered the costs to
15 our membership. So our net to membership has been
16 reduced.

17 But the employees of PJM, the management of PJM
18 are all on an incentive compensation program. So our
19 performance to our membership is reflected in the amount of
20 monetary compensation for the employees and the
21 management.

22 MR. GLAZER: It would fit the corporate
23 structure.

24 MR. BROWN: Yes. It fits that corporate

1 structure. It just depends what you do with profits.

1 COMMISSIONER MASSEY: How would what you going to
2 propose differ from that?

3 MR. NEWMAN: I think I understand the way they
4 are in PJM and based on what I just heard I think that
5 might qualify for being a system administrator.

6 If I go any beyond that and pretend I really
7 understand the depths of their corporate structure then I
8 mislead. So you I'd rather not do that.

9 COMMISSIONER MASSEY: Yes.

10 For years I thought PJM was a not for profit, and
11 then somebody disabused me of that notion.

12 When I first heard you were proposing a
13 for-profit entity here I sort of scratched my head, but I
14 think I now understand it better.

15 CHAIRMAN WOOD: I think in light of the debate
16 that you and I started in October, one of the differences
17 that I hear from what they are proposing is from what we
18 may have seen elsewhere.

19 As I think Bill pointed out, the for profitness
20 of it is not tied back to just focusing on transmission
21 only but how well do you administer the overall market.

22 I think that is kind of the issue. Is the profit
23 motive tied to just one type of asset or is it tied to
24 excellent performance?

1

If it is tied to excellent performance, then for

1 me the profit motive varies not the profits that we see
2 elsewhere perhaps.

3 COMMISSIONER MASSEY: They are going to be
4 independent because they won't own generation, transmission
5 or demand-side resources, the three types of competition
6 that you have in the marketplace. So they would be
7 independent.

8 I'm assuming they will earn their money based
9 upon performance. So, you would probably propose some sort
10 of performance standards for this system administrator; is
11 that right.

12 MR. NEWMAN: That's correct.

13 COMMISSIONER MASSEY: Okay.

14 MR. GALLAHER: That is in discussion now and
15 essentially the for-profit as the chairman indicated is an
16 economic incentive for the efficient operation of this
17 system.

18 CHAIRMAN WOOD: All right. That is an
19 interesting ideal. It sounds promising.

20 MR. NEWMAN: We would like for them to have some
21 skin in the meeting as many of us will have.

22 CHAIRMAN WOOD: Skin has so many meanings around
23 this building.

24 MR. NEWMAN: Sure.

1

CHAIRMAN WOOD: It makes life pleasant just to

1 find out what skin means.

2 MR. NEWMAN: We're talking about maybe beyond
3 skin, to muscle and bone. We are making our commitment.

4 MR. GALLAHER: Mr. Chairman, just over here,
5 Oakley, a pharmacist in Southeast Texas will be able
6 purchase electricity from the East Coast if he so desires.

7 COMMISSIONER MASSEY: There you go. God bless
8 you.

9 COMMISSIONER BREATHITT: Is that a plug for
10 opening up Texas.

11 CHAIRMAN WOOD: That transmission served my
12 mother and father, served them for their entire life. It
13 all comes together.

14 MR. CANNON: Mr. Chairman, --

15 CHAIRMAN WOOD: Can we get that as the power
16 people talked about bring the markets together.

17 I also would also envision that we would step up
18 our kind of day-to-day participation from the staff level
19 as well so we can have some eyes and ears and shoulders and
20 mouths and whatever is done there to help facilitate any
21 issues.

22 MR. NEWMAN: I might mention, Mr. Chairman, that
23 the staff's participation in the stakeholder process in
24 Atlanta is extremely helpful, and we appreciate their

1 interest very much.

1 CHAIRMAN WOOD: Anything else for you guys?

2 Thanks very much. Thanks for coming up to visit

3 with us.

4 (Whereupon, at 12:35 p.m., the meeting was

5 concluded.)

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

