Federal Energy Regulatory Commission
February 19, 2009
Open Commission Meeting
Staff Presentation
Item E-15

"Good morning Mr. Chairman and Commissioners.

In this draft order, we conditionally approve proposals to sell transmission rights at negotiated rates and grant waivers of certain Commission regulations for two merchant transmission developers -- Chinook Power Transmission, LLC and Zephyr Power Transmission, LLC. We also refine the method by which the Commission will evaluate merchant transmission developers' requests for negotiated rate authority, and for the first time, approve the presubscription of capacity to an anchor customer.

The two proposed merchant transmission projects are located in the western United States. The first project, Chinook, involves a proposed 1,000-mile, 500 kV high-voltage direct-current transmission line from central Montana to a point south of Las Vegas, Nevada. The second project, Zephyr, involves a proposed 1,100-mile, 500 kV high-voltage direct-current transmission line from southern Wyoming to a point south of Las Vegas, Nevada. According to the applicants, the projects will be beneficial to the West by providing additional transmission capacity to deliver renewable energy from wind generation projects in Montana and Wyoming to load centers in the southwestern United States. Furthermore, each of the transmission projects will have a transfer capability of approximately 3,000 MW.

The draft order refines the method by which the Commission will evaluate merchant transmission developers' requests for negotiated rate authority in the future. The refined method is reflective of the policy concerns upon which the Commission has previously evaluated such requests, while at the same time being less rigid. The draft order determines that the Commission will focus its analysis on the following four areas of concern when evaluating merchant transmission requests for negotiated rate authority: (1) the justness and reasonableness of the rates; (2) the potential for undue discrimination; (3) the potential for undue preference, including affiliate preference; and (4) regional reliability and operational efficiency requirements.

In their requests for negotiated rate authority, both Chinook and Zephyr seek Commission approval of a proposal to presubscribe half of their respective capacity to an anchor customer before holding an open season for the remaining capacity. In the past, the Commission has required merchant transmission owners to allocate all initial capacity through a pre-construction open season. The decision here to forego this requirement marks a change in the Commission's policy. This evolution recognizes the importance of financial commitments made by anchor customers prior to an open season, which provide crucial early support and certainty to merchant transmission developers, enabling them to gain the critical mass necessary to develop these projects. The anchor customer model may also be particularly beneficial to addressing the unique challenges associated with location-constrained resources. Therefore, the draft order accepts the anchor customer approach to structuring new merchant transmission projects.

This concludes staff's presentation. We would be happy to answer any questions you may have."