

**Organization of PJM States, Inc.
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**Transmission Planning:
*Who Should Build It?***

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Which Entity Constructs Necessary Transmission Upgrades?

- Incumbent vertically integrated transmission owners (“VITO”) traditionally constructed all wholesale Transmission facilities within their Service Territories.
- With the development of power pools, VITOs began entering into joint ownership and construction agreements.
 - PJM transmission owners arranged for 500 kV transmission lines to be jointly constructed, operated and jointly owned, prior to the formation of PJM LLC.
- When PJM became ISO in 1997, Schedule 6 of the PJM Operating Agreement (“OA”) permitted 3rd party construction of Transmission enhancements.

Transmission Upgrades

- Schedule 6 of OA addresses “who will build” Transmission facilities:
 - Projects are approved as part of Regional Transmission Expansion Plan (“RTEP”), developed through the Planning Committee. §1.3
 - Planning Committee is open to many parties, including “any other entity proposing to provide Transmission Facilities to be integrated into the PJM Region”. §1.3
 - RTEP is developed through an “open and collaborative process”. §1.5.6(a)
 - RTEP shall include analysis of proposed Merchant Transmission Facilities. §1.5.6(e) and §1.5.7(f) and (j).
 - RTEP will designate the entity that will construct transmission enhancements. §1.4(c)

Approval of RTEP

- PJM Board of Managers approves RTEP, including any alternatives. §1.6(a)
- PJM files with FERC an RTEP report, including the entity or entities that will be responsible for constructing the transmission expansion facilities. §1.6(a)
- Transmission Owners designated under RTEP to construct RTEP enhancements or expansions shall construct such facilities or enter into appropriate contracts to fulfill such obligations. §1.7(a)
 - If a Transmission Owner declines to construct an “economic transmission enhancement or expansion”, then PJM will file with FERC a report on the economic planning process to permit FERC to determine what action, if any, to take. §1.7(d)

Role of Independent Transmission Companies (“ITCs”)

- ITCs have developed in other RTOs to construct Transmission upgrades within another transmission owners Service Territory.
- ITCs do not own generation or distribution facilities and are focused on providing wholesale transmission service.
- ITCs have financial incentive to invest in additional transmission.
- Some VITOs may not have a financial incentive to relieve a transmission constraint if the transmission enhancement would lower the value of the VITO’s generation assets.

FERC Encourages Independent Operation of Transmission

- FERC has encouraged the independent operation of Transmission Facilities through an increased Return on Equity (“ROE”) for entities joining an RTO or forming an ITC:
 - In 2003, for example, FERC approved ITC’s requested ROE of 13.88%, or 100 basis points above that approved by the Commission for other transmission owners participating in the Midwest ISO.
 - FERC concluded that “this order benefits customers because the transfer of transmission facilities to an independent entity is one of the most effective means of separating transmission interests from generation interests and achieving independence through a for-profit transmission company. . [ITCs] should benefit customers by enhancing competition and reliability by encouraging new investment in infrastructure.” ITC Holdings, et al., 102 FERC ¶ 61,182, P 1 (2003).

Potential Advantages of ITC Business Model

FERC has said that ITCs have a “for-profit nature with a focus on the transmission business” to bring about:

- 1) improved asset management including increased investment;
 - 2) improved access to capital markets given a more focused business model than that of vertically-integrated utilities;
 - 3) development of innovative services; and
 - 4) additional independence from market participants.
- See, e.g., 99 FERC ¶ 61,106 p. 3 (2002).

Examples of ITCs Approved by FERC

- **ATC LLC**: approved by FERC on 12/14/00 to operate assets in Michigan and Wisconsin. 93 FERC ¶ 61,267.
- **International Transmission Company**: approved by FERC on 12/20/01 to operate assets owned by Detroit Edison. 97 FERC ¶ 61,330.
- **Michigan Electric Transmission Company, LLC**: approved by FERC on 2/13/02 to operate assets owned by Consumers Energy.
- **TRANSLink**: approved by FERC on 4/25/02 to operate assets owned by Alliant Energy Corporation, MidAmerican and Xcel Energy. 99 FERC ¶61,106; development suspended on 12/29/04.
- **GridAmerica**: approved by FERC on 7/31/02 to operate assets owned by Ameren, Northern Indiana Public Service Company and National Grid USA. 100 FERC ¶ 61,135; ceased operations on 10/31/05.

HVDC Transmission Developments and ITCs

- High Voltage Direct Current (“HVDC”) Technology:
 - directional, rather than “network” Alternating Current
 - more easily able to be controlled without loop flows problems
 - improved potential for market-based rates
- Entities constructing HVDC have been independent of VITOs

Some Examples of HVDC Transmission Companies

- *Cross Sound Cable* was originally approved by FERC on 6/1/00 to provide transmission service at negotiated rates between Connecticut and Long Island, New York. 91 FERC ¶ 61,230.
- *Neptune Regional Transmission System* was originally approved by FERC on 7/27/01 to connect regions in Maine, New Brunswick and Nova Scotia with markets in Boston, New York City, Long Island and Connecticut. 96 FERC ¶ 61,147.
- *New York Regional Interconnect Inc.* proposes to construct 190-mile line from upstate NY to southeastern part of New York
 - On 8/27/08, NY PSC deemed the NYRI Article VII application “complete”.

Challenges Facing ITCs

- Many of the same challenges facing a VITO in constructing new Transmission enhancements:
 - Regulatory approval
 - Environmental siting of facilities
 - Competing for capital, given the long-term nature of transmission projects
 - Adequate ROE to attract investment
- Competing with VITOs in their Service Territories