New England Competitive Transmission Forum

Order 1000 Implementation Challenges and Opportunities

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PSEG

Public Service Enterprise Group Inc. (PSEG)

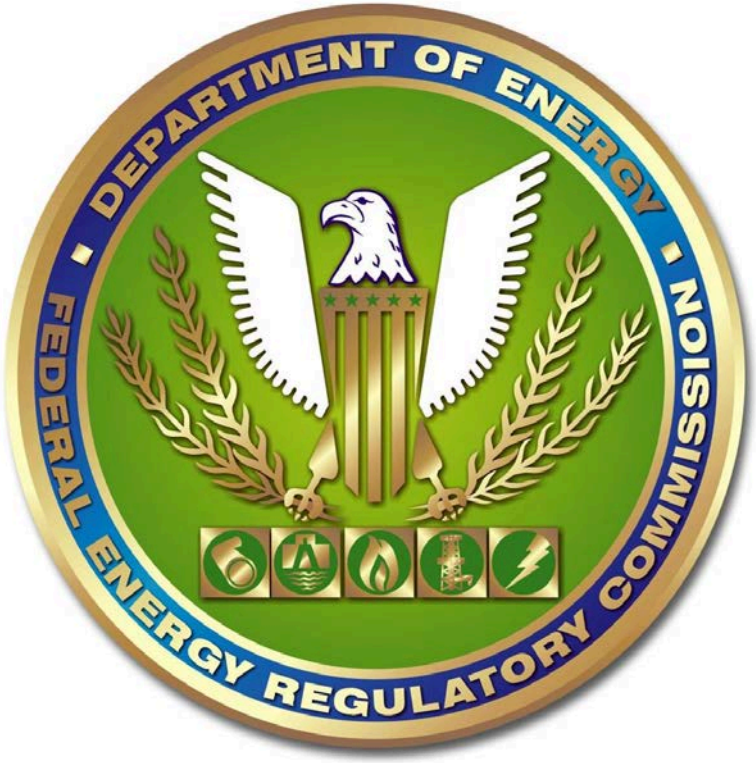
- Public Service Enterprise Group Inc. (PSEG) is a publicly traded, diversified energy company with annual revenues of approximately $11 billion; two principal operating companies, PSE&G and PSEG Power LLC
- PSE&G (Public Service Electric and Gas Company) is New Jersey's oldest and largest regulated electric and gas utility; has 2.2 million electric customers and 1.8 million gas customers
- PSE&G is a PJM Transmission Owner, with approximately 1,700 circuit miles of electric transmission facilities
- As of 2015, PSE&G has over $ 5.8 billion of transmission plant in service and over $900 million in annual transmission revenues
- FERC-approved forward-looking formula rate in place since 2008
- Named America's most reliable electric utility for the 5th time in 9 years and winner of regional award for the 13th straight year

PSEG's Participation In Order 1000 Processes

- PSE&G is a Transmission Owner in PJM
  - Awarded approximately 40% of investment for Artificial Island Project
  - Submitted 11 greenfield proposals in July for PJM 2015 Open Window #1
  - Active participant in ongoing PJM "lessons learned" stakeholder process and design standards working group
- PSEG - Qualified Transmission Developer in MISO, NYISO, SPP
  - MISO - TDQS (Transmission Developer Qualification and Selection) and RFP "Dry Run" process participation
  - PSEG's SPP application used as training aid for Independent Evaluation Panel (IEP)
  - Qualified in NYISO for participation in reliability, economic and public policy project solicitations

Goals of FERC Order 1000

- "Produce a transmission plan that can meet transmission needs more efficiently and cost-effectively"
- Regional transmission plan must reflect "fair consideration of transmission facilities proposed by non-incumbents"
- Not a "one size fits-all" approach



Regulatory status of cost containment

- In Order 1000 implementation proceeding, FERC rejected IMM's request that developers not be permitted to recover costs in excess of estimate. (*PJM Interconnection L.L.C.*, 142 FERC ¶ 61, 214 PP. 307, 314 (2013)).
- FERC has not yet approved a cost cap used in an open window process
- Recent petition for declaratory order filed by ITC at FERC to treat cost cap as a "filed rate" (Docket No. EL-15-86)

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Challenges with Competitive Solicitation Processes

- Designing a process that is capable of being implemented
- Sponsorship model vs. RFP (two-step) process
- Project selection criteria - formulaic vs. reliance on RTO/ISO judgment
- Role of cost and cost containment in selection; short-term “low cost” solution vs. long-term higher value solution
- Evaluation of constructability

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Establish Implementable Rules

Challenges

- Address burden on RTO/ISO resources
- Focus on open windows where solutions are most likely to be open to competition under Order 1000 rules
- Maintain system reliability by minimizing selection delays
- Proposal fees may not be sufficient to minimize evaluation burden and costs

Potential Solutions

- Establish meaningful voltage threshold for competitive projects e.g. above 200kV
- Upfront determination as to whether likely solution will be incumbent upgrade and/or zonally allocated
- Design and implement rules to prevent last-minute selection changes; better-defined RFPs to start the process
- Fee levels commensurate with resource requirements

Are Developers Competing to Develop the Solution Itself or Only to Build the RTO-Selected Solution?

Sponsorship Model:

RTO/ISO identifies need; Developers propose solutions; Developer proposing selected solution wins

- PJM
- ISO-NE
- NYISO

Two Step Process:

RTO/ISO identifies both need and solution; Developers compete to build, own and operate solution

- CAISO
- MISO
- SPP

• The sponsorship model may encourage more innovative, creative solutions – a "bottoms up" approach to developing solutions
• Sponsorship model, however, may make process more challenging and complex for the RTO/ISO; need clear rules to prevent creation of an overly cumbersome, time-consuming process
•Two-step process may not sufficiently reward planning participation; multi-tiered participation credit – potential option

Project Selection Criteria

Challenges

- Establishing clear and transparent selection criteria, while maintaining some degree of RTO/ISO judgment
- Expertise gaps at RTO/ISO level

Potential Solutions

- Stakeholder collaboration with RTO/ISO, leading to evaluation criteria that are transparent; if a formulaic approach is adopted, allow for deviations if unique circumstances are presented in a particular RFP
- Consider an Independent Evaluation Panel (IEP) of industry experts to assist with selection process

The Role of Cost in Selection Process

Challenges

- Categories of costs analyzed
  - Construction cost only? "Life of the project" costs – O&M?
  - How to evaluate longer-term "value" of a developer proposal?
- Cost determination
  - Third party independent evaluation?
  - Apples-to-apples scope comparison?

Potential Solutions

- Establish uniformly-applied minimum design criteria
- Make clear in RFP and/or selection criteria how "cost" (including O&M costs) of competing proposals will be evaluated and how ancillary benefits of proposals will be weighted

The Role of Cost Containment in Selection Process

Challenges

- Difficult to evaluate commercial terms and conditions/exclusions
- Lack of RTO commercial expertise
- Potentially disproportionate level of importance

Potential Solutions

- Standardized cost containment proposals. with standardized commercial terms
- Enhanced expertise in evaluating applicability of exclusions
- Transparent selection criteria, with clear weighting of categories including cost

Constructability Evaluation

Challenges

- RTO resources/expertise
- Significant state-by-state differences in permitting/siting requirements
- Permitting agencies cannot make determinations in absence of application

Potential Solutions

- Enhanced independent expertise on permitting, siting and land acquisition issues
- Variance analysis and enforceable milestones in developer/RTO agreements
- Reward developers for specifying permitting challenges and identifying risk mitigation strategies in their proposals

Summary

- We are still early in the process
- Bright-line voltage threshold is reasonable and necessary
- Consider standardizing cost containment proposals
- Enhancements to selection process will benefit participants and customers
- Cannot lose sight of need for long-term robustness and reliability of grid