



GRIDSOUTH TRANSCO

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CONTEXT OF DISCUSSIONS

- **Duke, CP&L and SCANA had participated in joint discussions to form an RTO previously, which had not been successful**
- **Following issuance of Order No. 2000, Duke developed a structural model that it thought might be attractive to other Carolina utilities**
- **Parties came together around this model in late May 2000, and began negotiations in earnest**

FACTORS AFFECTING CHOICE OF RTO MODEL

- **Three utilities strongly support the Transco model over a not-for-profit ISO.**
- **Carolinas not far along with restructuring and unlikely to favor transfer of transmission assets to an RTO on time-frame required by Order 2000.**
- **Discomfort with aspect of Alliance model that called for creation of ISO that would be terminated and replaced by Transco.**

GRIDSOUTH TRANSCO MODEL

- **Form a for-profit LLC that would not own transmission assets of forming companies initially.**
- **Transmission owners would have passive equity ownership of LLC.**
- **Non-equity participation option for entities unable to hold equity stake or uninterested in doing so.**

GridSouth Transco Model

- **LLC would look for opportunities to participate in the transmission business to enhance value of company.**
- **LLC a vehicle for later transfer of utilities' transmission assets, but no obligation.**
- **Companies open to potential for third-party investment in the LLC.**

GridSouth Contract Structure

- **Each participating transmission owner executes a Transmission Operating Agreement (“TOA”) to transfer “Functional Control” to GridSouth.**
- **Under TOA, transmission owners establish their revenue requirements and GridSouth obligated to design OATT rates to compensate owners for use of their assets.**
- **Transmission owners interested in acquiring equity stake in GridSouth will advance start-up capital and execute LLC Agreement.**

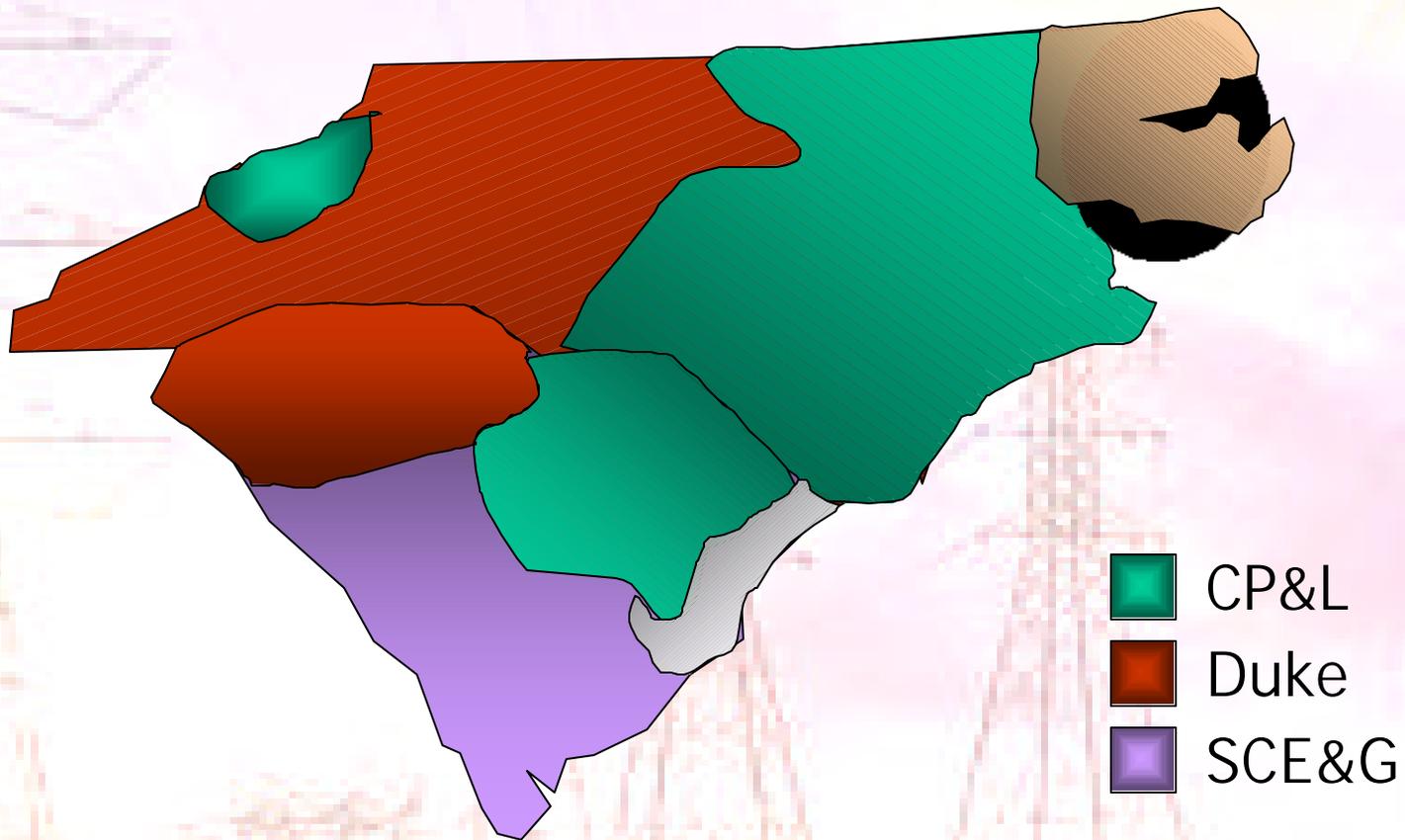
Independent Governance

- **GridSouth governed by an independent, self-perpetuating Board, subject to approval by the FERC.**
- **Board, officers and employees of GridSouth may not have financial relationship with any market participant.**
- **Market Monitor chosen via stakeholder process and independent of GridSouth management.**

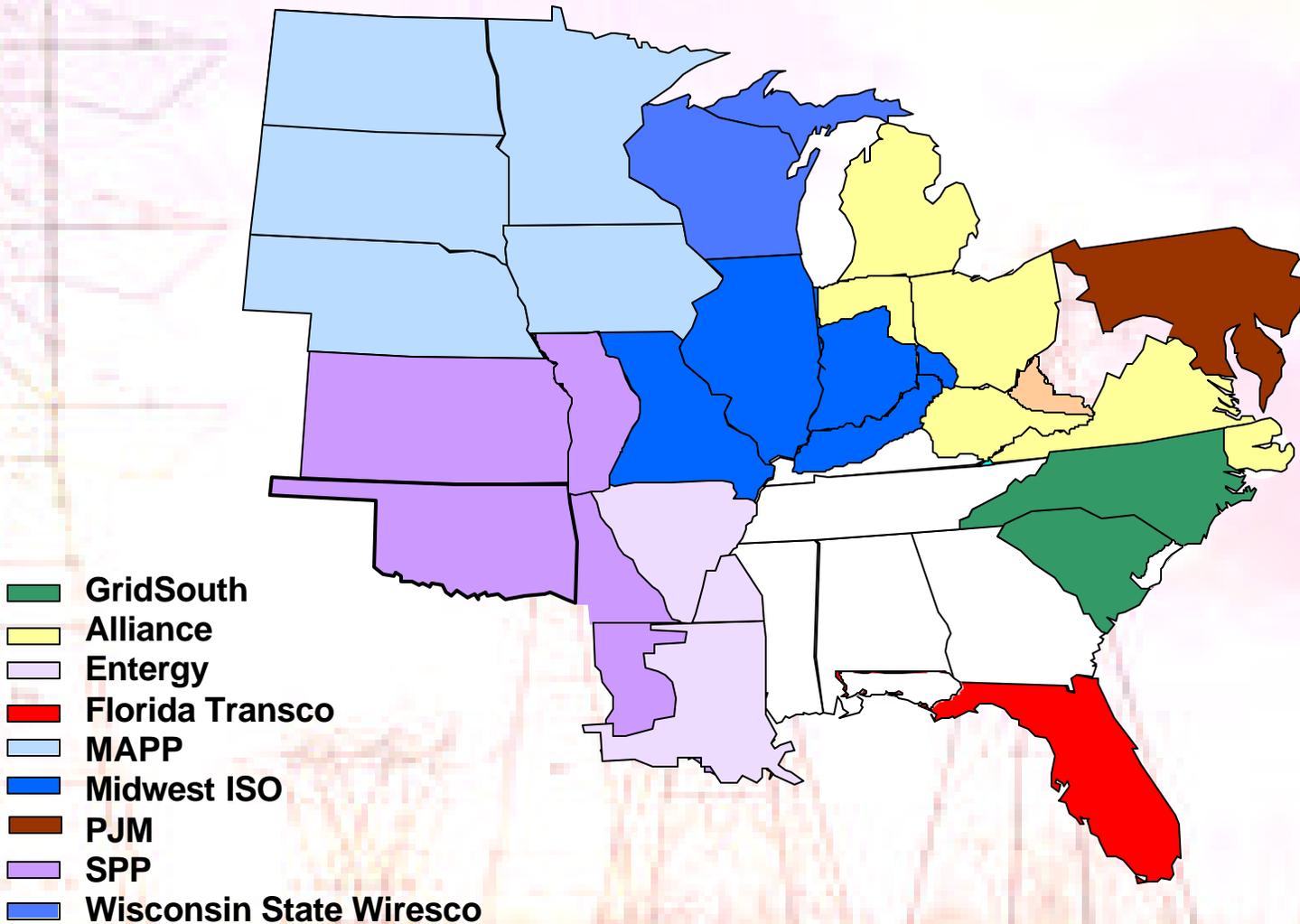
Passive Ownership

- **Transmission owners (and other market participants) limited to passive ownership as defined by FERC precedent.**
- **Shares of passive owners voted by a trustee who is obligated to vote in accordance with the positions of the independent Board.**
- **Non-market participants may acquire active ownership.**

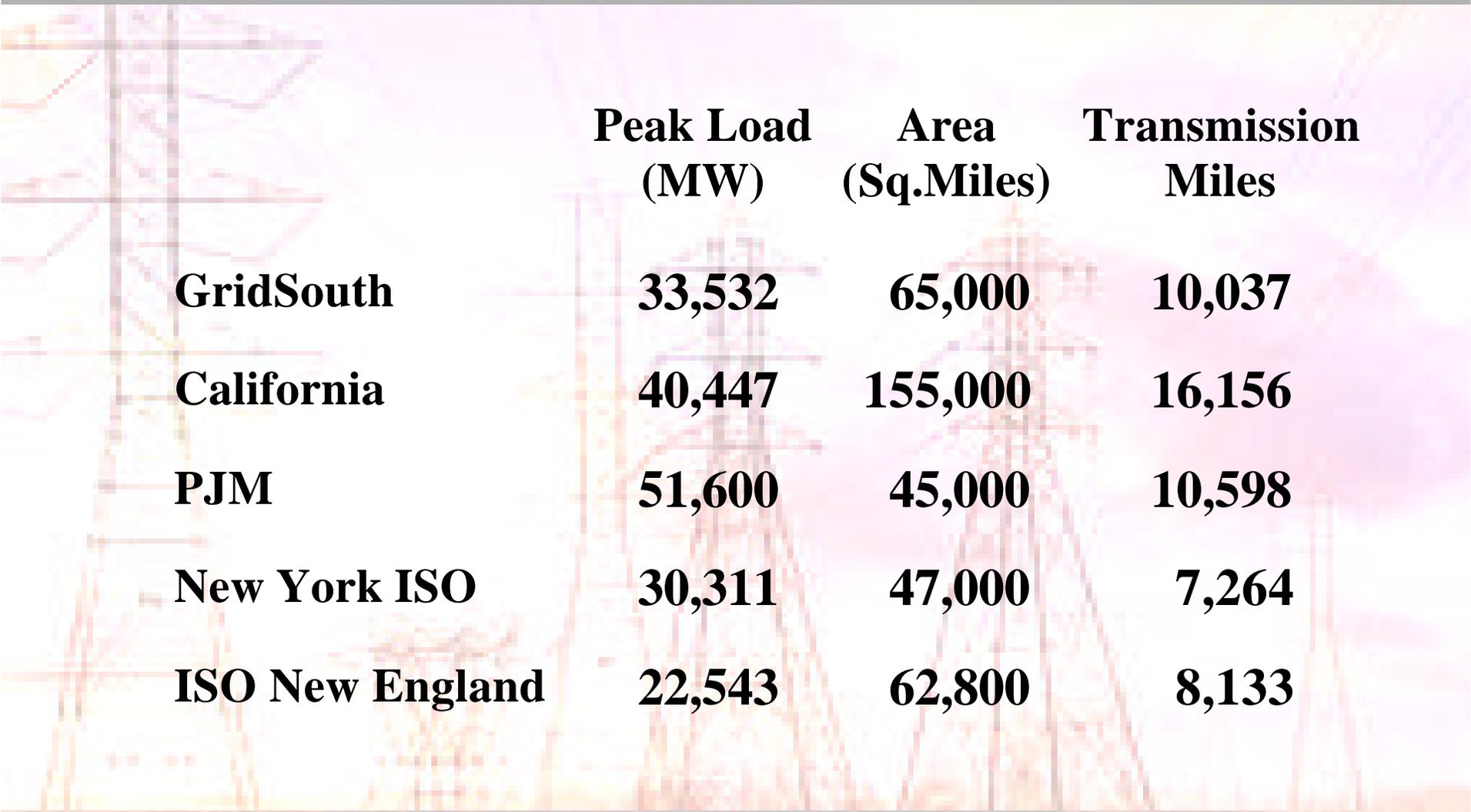
Initial Members' Systems



Map of GridSouth and Neighboring RTOs



Size and Scope Comparison



	Peak Load (MW)	Area (Sq.Miles)	Transmission Miles
GridSouth	33,532	65,000	10,037
California	40,447	155,000	16,156
PJM	51,600	45,000	10,598
New York ISO	30,311	47,000	7,264
ISO New England	22,543	62,800	8,133

Transmission Pricing

- **General Framework provided in filing:**
 - ◆ **Single rate for all service**
 - ◆ **License plate concept with average rate for through and out service**
 - ◆ **Native load basic rate is unchanged**
- **GridSouth TSC covers its startup and investment costs**
- **Rate proposal to be filed later**

Transmission Operations

- **GridSouth has functional control of entire transmission system**
 - ◆ **Administers single OATT**
 - ◆ **Acts as Security Coordinator**
 - ◆ **Determines ATC/TTC and operates single OASIS site**
 - ◆ **Directs redispatch to address congestion and maintain firm service**
 - ◆ **Provides energy imbalance service**
 - ◆ **Directs operation of transmission system**
 - ◆ **Others: (load shedding, ancillary services, must-run units, interconnection, transmission maintenance, etc.)**

Planning Functions

- **GridSouth is responsible for coordinated planning process through a Reliability Planning Committee**
- **Stakeholder Advisory Committee input**
- **GridSouth has responsibility for expansion, subject to a financing proviso. TPs have right of first refusal to build in own areas.**

Market Monitoring

- **Independent Market Monitor will:**
 - ◆ **Identify abuses of market power**
 - ◆ **Identify undue discrimination by GridSouth or market participants**
 - ◆ **Identify market design flaws**
- **Selected by Stakeholder Advisory Comm.**
- **Provides reports and refers matters appropriately**

Energy Imbalance

- **Within 1.5% / 2 MW Deviation Band - Customer Imbalances are settled at the Hourly Imbalance Cost.**
- **For Larger Imbalances the HIC is increased/discounted.**
- **Within each Control Area, Transmission Customers can trade imbalances on an after-the-fact basis.**
- **GridSouth will facilitate imbalance trading by posting potential trading partners.**

Congestion Management

- **Redispatch to maintain Firm Transmission.**
 - ◆ **GridSouth will use mandatory incs and decs to maintain Firm Transmission Service.**
- **Bilateral redispatch market for new Transmission Service.**
 - ◆ **Voluntary Bids for redispatch will be received from Generators.**
 - ◆ **Generator's identity will be posted**
 - ◆ **Transmission customers and generators may enter into agreements for redispatch to relieve congestion.**
 - ◆ **GridSouth will facilitate the necessary scheduling.**

Why Start Here

- **Lack of significant congestion/predominance of bundled retail load.**
- **No imminent changes in the Carolinas' markets.**
- **Questionable cost/benefit balance.**
- **Ability to apply lessons learned from other markets.**
- **Allows GridSouth to lead the process.**

Path Forward

- **No later than one year after Independence Date, GridSouth will begin addressing the development market-driven congestion management.**
- **Begin addressing the development of a real-time balancing market.**
- **No limits on the direction GridSouth may take.**
- **GridSouth will be required to consider the relative cost and benefits to customers.**