

Overview SeTrans Grid Company

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Background

- Georgia Power has a jointly-owned transmission system with Georgia Transmission Corp (GTC), Municipal Electric Authority of Georgia (MEAG), and the City of Dalton (all non-jurisdictional entities).
- Joint ownership is dealt with through a series of agreements called the "ITS" (Integrated Transmission System).

Background *(continued)*

- An RTO for our region must take the ITS into consideration.
- Southern Company began discussions with our ITS partners shortly after Order 2000 was issued.
- Agreement has not been reached, but Southern Company filed its RTO plan in compliance with October deadline.

Background *(continued)*

- Southern Company filed a Request for Declaratory Order seeking FERC's guidance on whether its' proposal would meet all of the requirements of Order 2000.

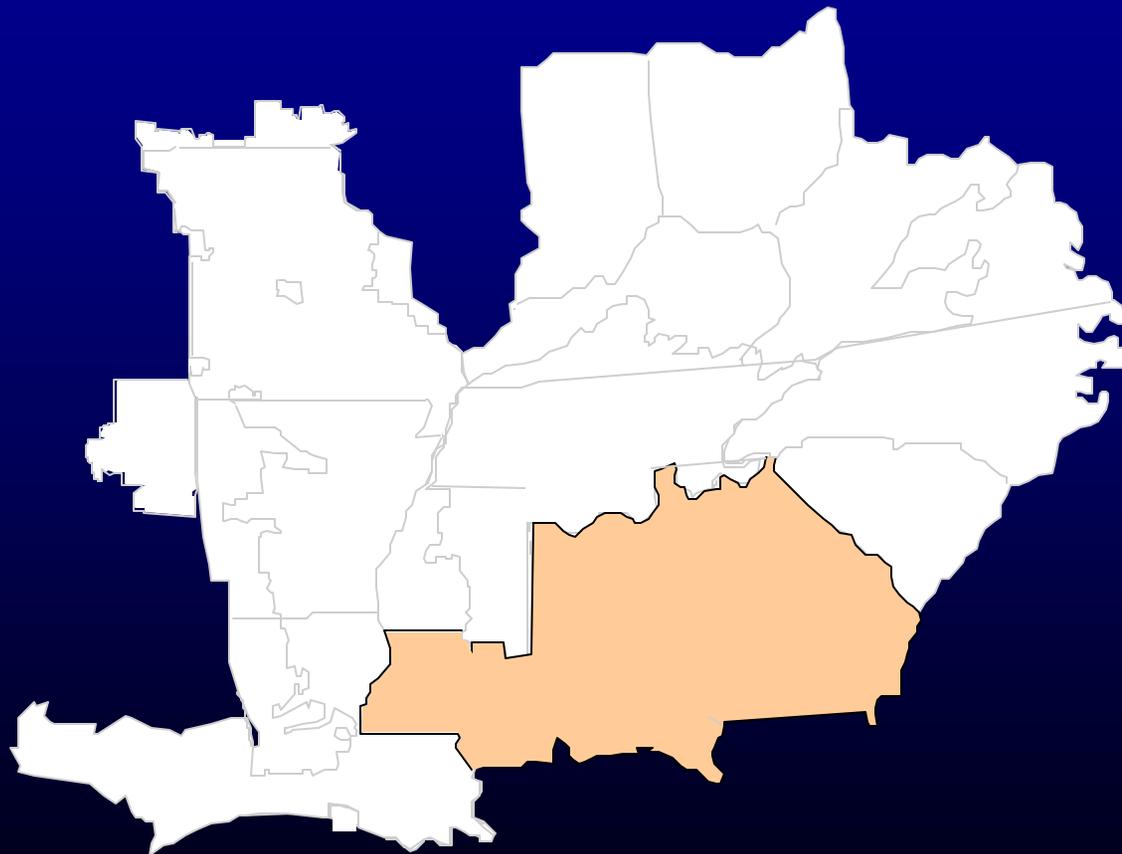
October 16 FERC Filing

- Our October 16 filing included:
 - RTO Description
 - Governance Options
 - RTO Functions
 - Market Structure
 - Transmission Planning
 - Transmission Pricing
 - Unresolved Issues

RTO

Description

SERC Southern Subregion



RTO Options Reviewed



ISO

■ Pluses

- Would involve least structural change.

■ Minuses

- Separates ownership from control.
- No profit incentives for efficiency and cost control.
- Bureaucratic decision-making.

ISO *(continued)*

Conclusion

We do not want to participate
in an ISO.

Other Options Reviewed

- Sale of transmission assets to third party to form transco.
- Spin-off of transmission assets to Southern Company shareholders to form transco.
- For-Profit Gridco (GridSouth and Grid Florida Models).

RTO - Sale of Assets Option

■ Pros

- Aligns control and ownership.
- Generates cash for re-investment or share re-purchase by Southern.
- Avoids financing of future transmission investment.

RTO - Sale of Assets Option

■ Cons

- Low tax basis of assets creates significant tax liability on sale.
- Uncertainty about regulatory response.
- Uncertainty regarding ability of buyer to get acquisition premium approved.
- Limited universe of buyers.
- Limited future flexibility.

Spin-Off of Assets to Shareholders

■ Pros

- Aligns control and ownership.
- Avoids financing of future transmission investment.
- Ability to initially staff transco to ensure requisite expertise.
- Avoids taxes.

Spin-off of Assets to Shareholders

■ Cons

- Transco stock is unlikely to trade at a premium multiple vs. Southern and is more likely to trade at a discount until a good track record is established.
- Ability to merge or acquire is limited for at least two years.
- Limited future flexibility.

Conclusion

We should pursue
for-profit Gridco.

Why?

Conclusion *(continued)*

- Provides maximum flexibility.
- Consistent with actions of others in the Southeast.
- Limited impact on retail customers/state regulation.
- Minimizes turmoil -- assets and people.

For-Profit Gridco

- Transmission owners grant Gridco:
 - Control over operations.
 - Responsibility for reliability.
 - Transmission planning responsibilities.
- Ownership of assets may be retained.

For-Profit Gridco

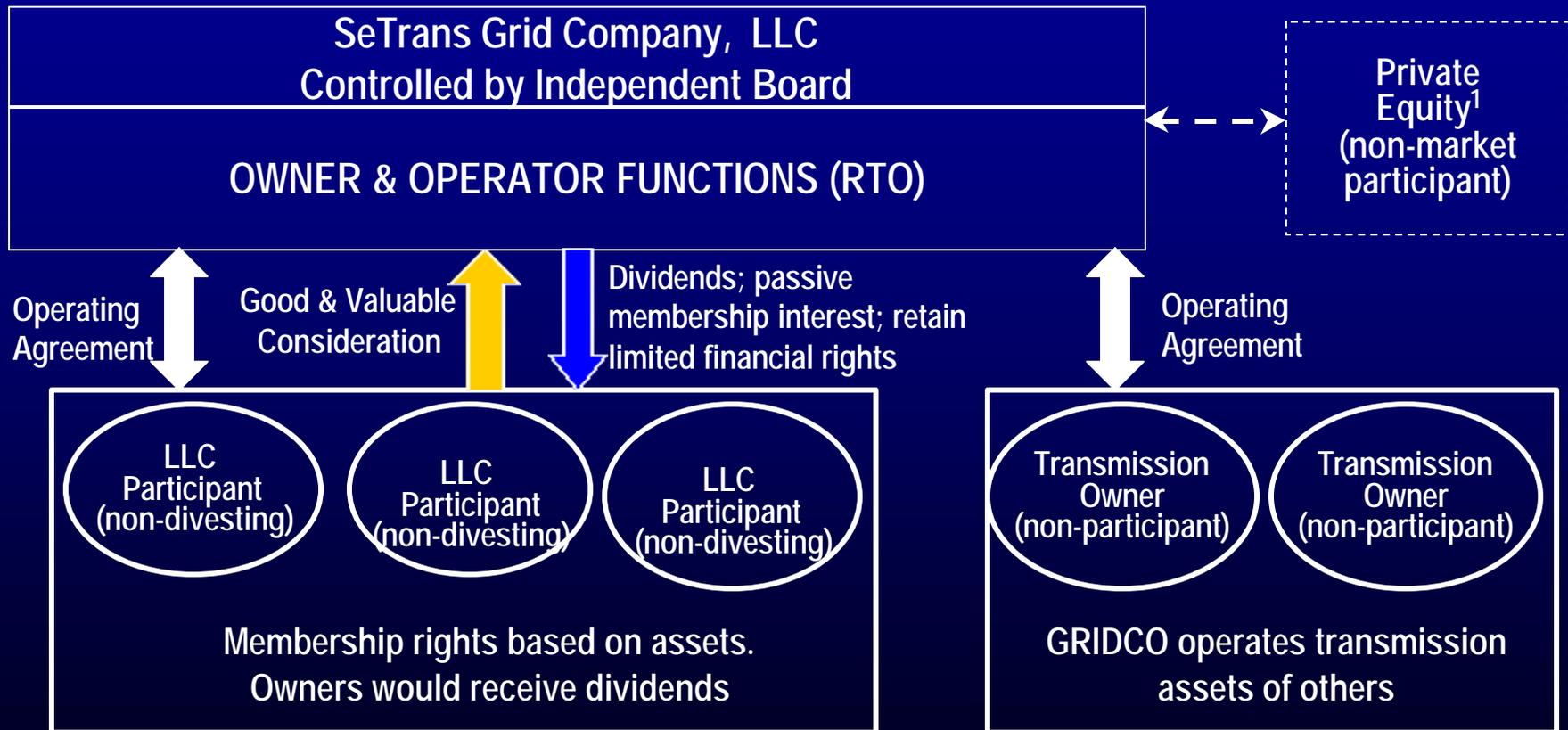
- TOs may also participate by selling or leasing assets to Gridco.
- TOs may simply keep their assets and pay a fee to have Gridco operate their assets, without participating in partnership.
- Offers maximum flexibility to TOs.

SeTrans Grid Company

- Open to all transmission owners (TOs) in Southern Subregion of SERC.
- Options for management:
 - Independent board
 - Managing partner
 - Independent ownership

GRIDCO BUSINESS MODEL

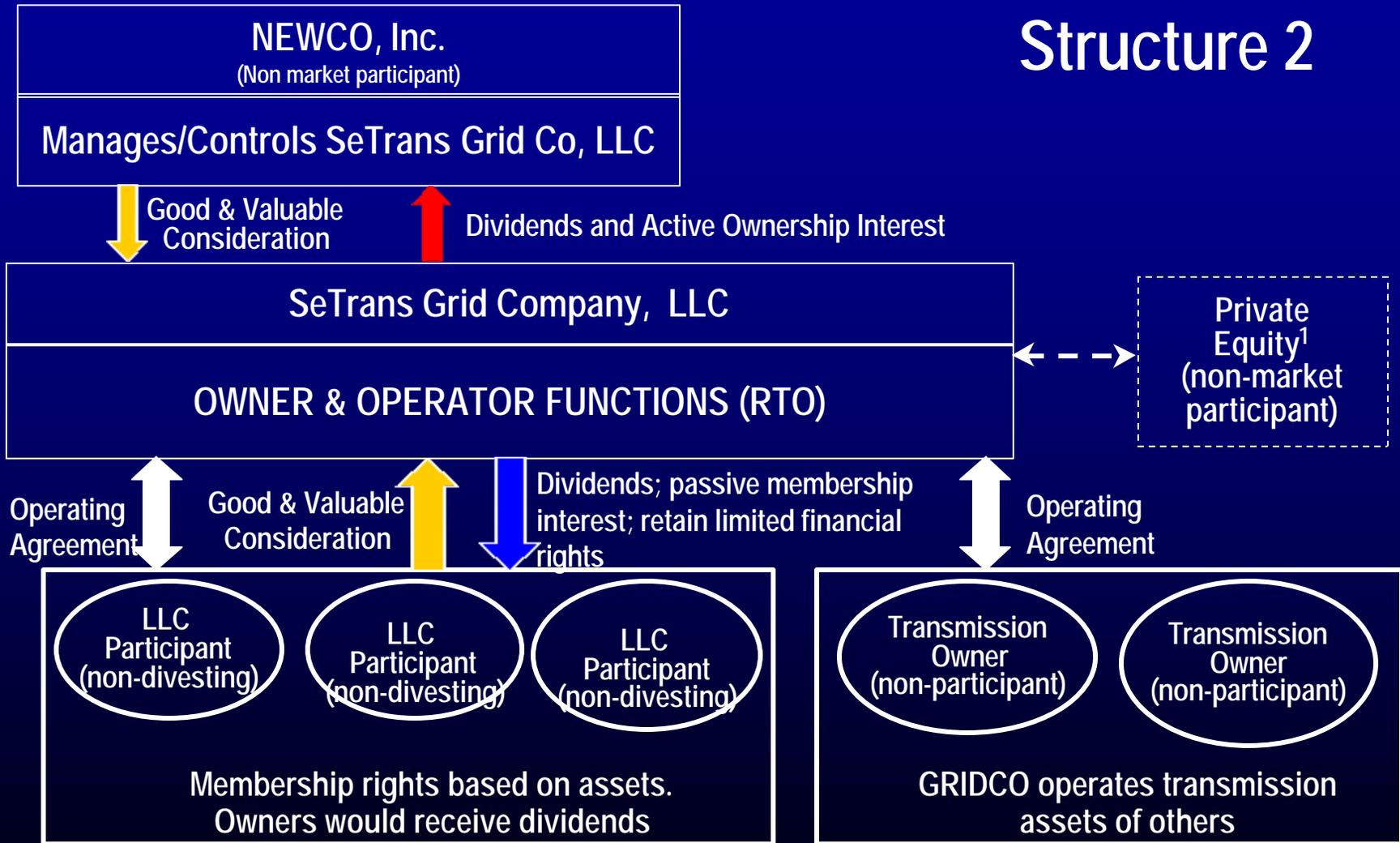
Structure 1



¹Selling equity to private investors is a possible, but not necessary part of the model.

GRIDCO BUSINESS MODEL

Structure 2



¹Selling equity to private investors is a possible, but not necessary part of the model.

GRIDCO BUSINESS MODEL

Structure 3



Operating Agreement



What Goes and What Stays

- Goes to RTO
 - Operational authority for all transmission.
 - Region Security Coordinator.
 - Responsibility for short-term reliability.
 - Transmission tariff administrator.
 - Ancillary services.
 - Planning and expansion decisions.
 - Congestion management.
 - Market monitoring.

What Goes and What Stays

(continued)

- Stays with transmission owners:
 - Switching (at direction of Gridco).
 - Maintenance (schedules subject to Gridco approval).
 - Right of first refusal to build new transmission.

Key Issues to be Resolved

- Major downside of proposal is separation of ownership and control.
- We need to be able to incent Gridco to operate reliably, efficiently and to sufficiently protect our assets.
- We prefer an entity that can finance and own transmission assets -- this may be problematic.

Key Issues (cont.)

- Thus, pricing and incentives are critical
 - this was a major focus of our 10/16 filling
- Types of incentives sought:
 - higher ROE on new investments
 - accelerated depreciation
 - trended revenue cap
 - Performance-based rates
 - throughput incentives

Market Structure and Operations

Proposed Market Structure

- Assumptions.
- Market Features.
- Control Area Concept.
- Ancillary Services Markets.
- Firm Transmission Rights.
- Congestion Management.

Assumptions

- RTO will be the control area operator.
- RTO will not operate a Power Exchange.
- All generators under RTO authority will be subject to redispatch under emergency conditions.
- RTO will be the Security Coordinator.

Assumptions

- RTO will have authority and responsibility to maintain system reliability:
 - Normal Conditions.
 - Emergency Conditions.
- Sufficient resources will be under RTO control to respond to all credible system contingencies.

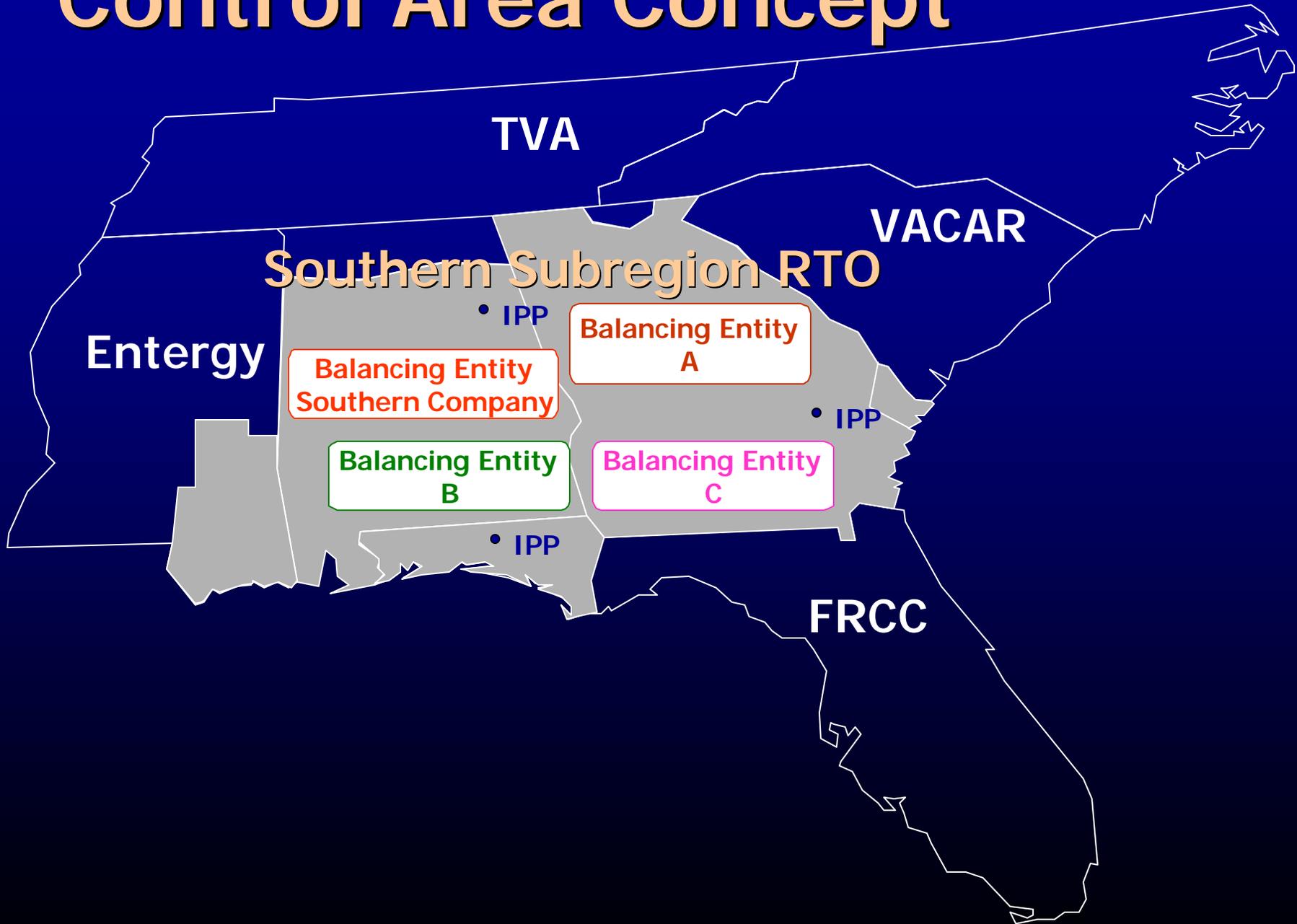
RTO Market Features

- Three Time Periods:
 - Day Ahead
 - Hour Ahead
 - Real Time
- Day Ahead submission of hourly balanced schedules with optional hourly adjustments.
- Mandatory settlement for all real time deviations from schedule.
- Real Time settlements based on Locational Marginal Price (LMP) at generator or load bus.

RTO Market Features

- Ancillary Services acquired through bid based markets.
- Transmission service reserved on Contract Path basis.
- Firm transmission rights awarded on flowgate basis, not contract path.

Control Area Concept



Control Area Concept

Normal operations supported by Ancillary Services purchased from bid based market.

Emergency operations:

- Reliability situations which can not be resolved using market mechanisms, i.e. insufficient ancillary services bid.
- Mandatory redispatch of all generators.
- Mandatory curtailment.

Ancillary Services

- Bid-Based Ancillary Services Market.
- FERC Ancillary Services:
 - Scheduling and Dispatch Services.
 - Reactive and Voltage Control.
 - Spinning Reserves.
 - Supplemental Reserves.
 - Regulation.
 - Energy Imbalance.
- Congestion Management.
- Black Start/System Restoration.

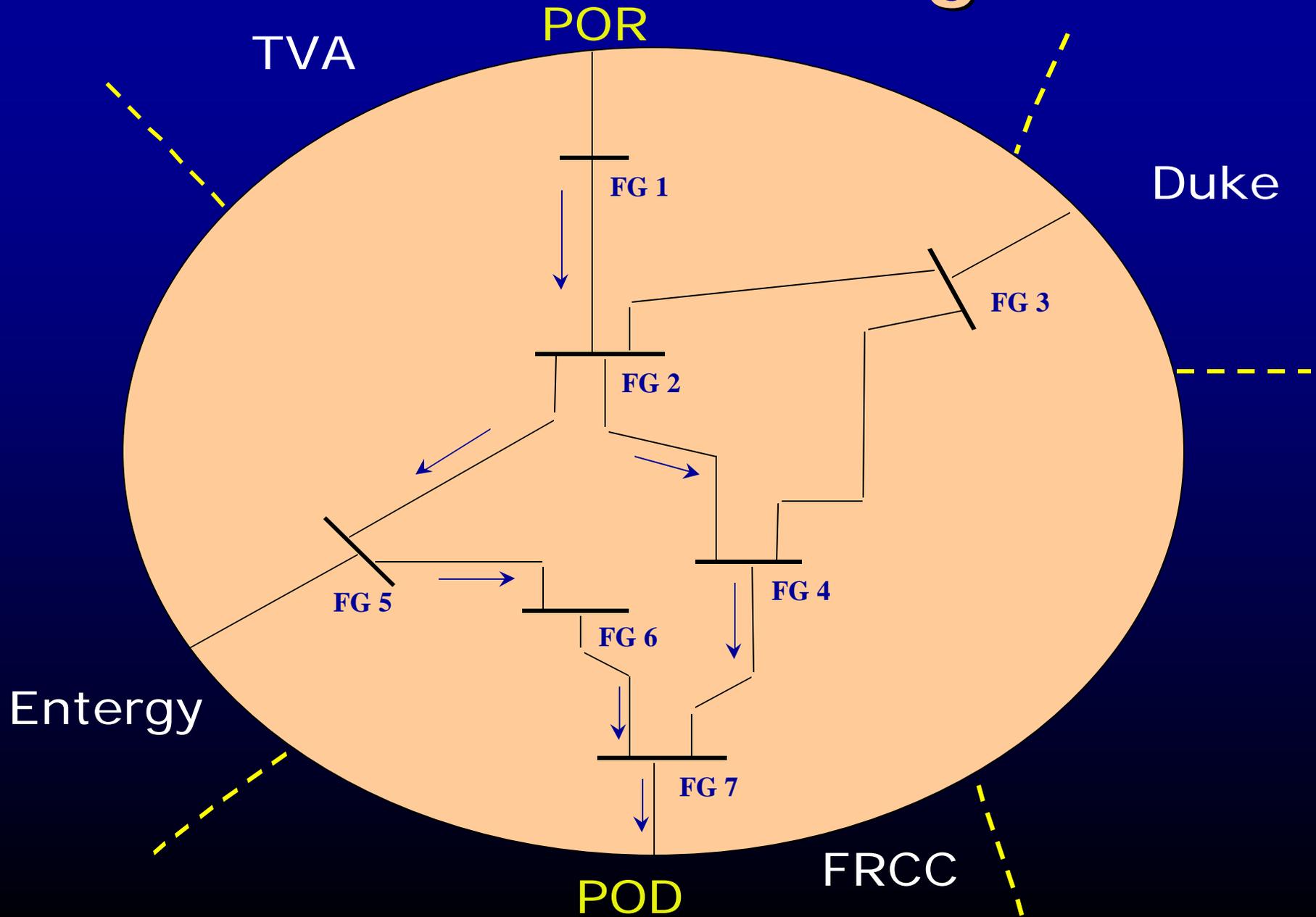
Ancillary Markets Operated

- Capacity and Energy Markets.
 - Reactive and Voltage Control.
 - Interconnection agreements and contracts.
 - Spinning Reserve.
 - Supplemental Reserve.
 - Regulation.
 - Energy Imbalance.

Firm Transmission Rights

- All firm transmission service customers will receive Firm Transmission Rights (FTRs).
- FTRs represent rights to specific flowgate capacity along the contract path specified.
- Flowgates are transmission facilities or interfaces that may reasonably be expected to experience congestion during certain time periods.

Firm Transmission Rights



Firm Transmission Rights

- Possession of an FTR confers specific rights if the flowgate becomes congested:
 - Priority for avoiding redispatch cost.
 - Priority for avoiding physical curtailment.
- FTRs may be freely traded subject to registration with the RTO. The RTO will operate a secondary market.
- FTRs may be used for any transaction, not just the one they were awarded for.

Congestion Management

When congestion occurs, non-firm service customers may:

- Pay voluntary redispatch costs (if a redispatch solution is available).
- Purchase Firm Transmission Rights (and thus become firm transmission customers).
- Physically curtail transaction.

Congestion Management

When congestion occurs, firm service customers:

- Pay mandatory redispatch costs or reduce schedule(s).

If no redispatch solution exists, all customers may have to physically curtail (based on priority).

Congestion Management

- LMPs will be calculated on the following schedule:
 - Following initial submission of day ahead schedules.
 - Following submission of hour ahead schedules.
 - Hourly for real time settlement process.
- Projected LMPs for the next 24 hours will be published each hour.

Model Summary

- LMPs are charged/paid based on deviations from schedule.
- Neither a Pool nor a PX are required.
- Bilateral contracts are the primary power market.
- Congestion costs are paid only by those creating the congestion.

Model Summary

- Firm customers make no congestion cost payments unless they cause the congestion.
- FTRs allocated based on flowgate impact.
- FTRs can be used for alternate paths that impact the same flowgate.
- FTRs provide incentive to sell unused rights into market.

Transmission Planning

Transmission Planning

- RTO will have final approval authority for all transmission facilities in the region.
- RTO will be responsible for planning and arranging transmission expansions and upgrades.
- RTO will be responsible for developing, updating annually, and implementing a regional transmission plan.

Transmission Planning

- Transmission owners will continue to have initial responsibility for planning and arranging facilities needed to accommodate distributed load growth and address local reliability issues.
- RTO will have responsibility to oversee and approve expansions and upgrades of these move localized facilities.

Transmission Planning

- Transmission owners will have a right of first refusal to construct new transmission facilities.
- Market participants will have inputs into the planning process and have an advisory role in prioritizing projects.
- Decision-making authority resides with the RTO.

Next Steps

Next Steps

- Continue work sessions with other TOs.
- Continue discussions with State Commissions.
- Await FERC Order on October 16 filing.
- Continue public input.
- Final RTO filing and implementation.