



FERC Order 1000 – Financial Requirements

July 10, 2012

SPP Finance Committee Task Force on Order 1000



Revision History

Date or Version Number	Author	Change Description	Comments
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FERC Order 1000 Background

On July 21, 2011, the Federal Energy Regulatory Commission (“FERC”) issued Order 1000. Per the Order, public utility transmission providers must either amend their open access transmission tariffs (“OATT”) to comply with the requirements of Order 1000 or demonstrate how their existing OATT provisions already comply.

In response to Order 1000, the Southwest Power Pool, Inc. (“SPP”) Board of Directors tasked SPP’s Strategic Planning Committee (“SPC”) with leading SPP’s response to the regional policy requirements contained in Order 1000. After initial meetings of the SPC to discuss requirements of Order 1000, the SPC formed the SPC Task Force on Order 1000 (“SPCTF”) to examine SPP’s existing OATT to determine whether SPP’s current transmission planning and cost allocation provisions comply with the Order 1000 requirements and whether additional revisions will be necessary. Further, the SPCTF was tasked with proposing how SPP should respond in its compliance filing with FERC.

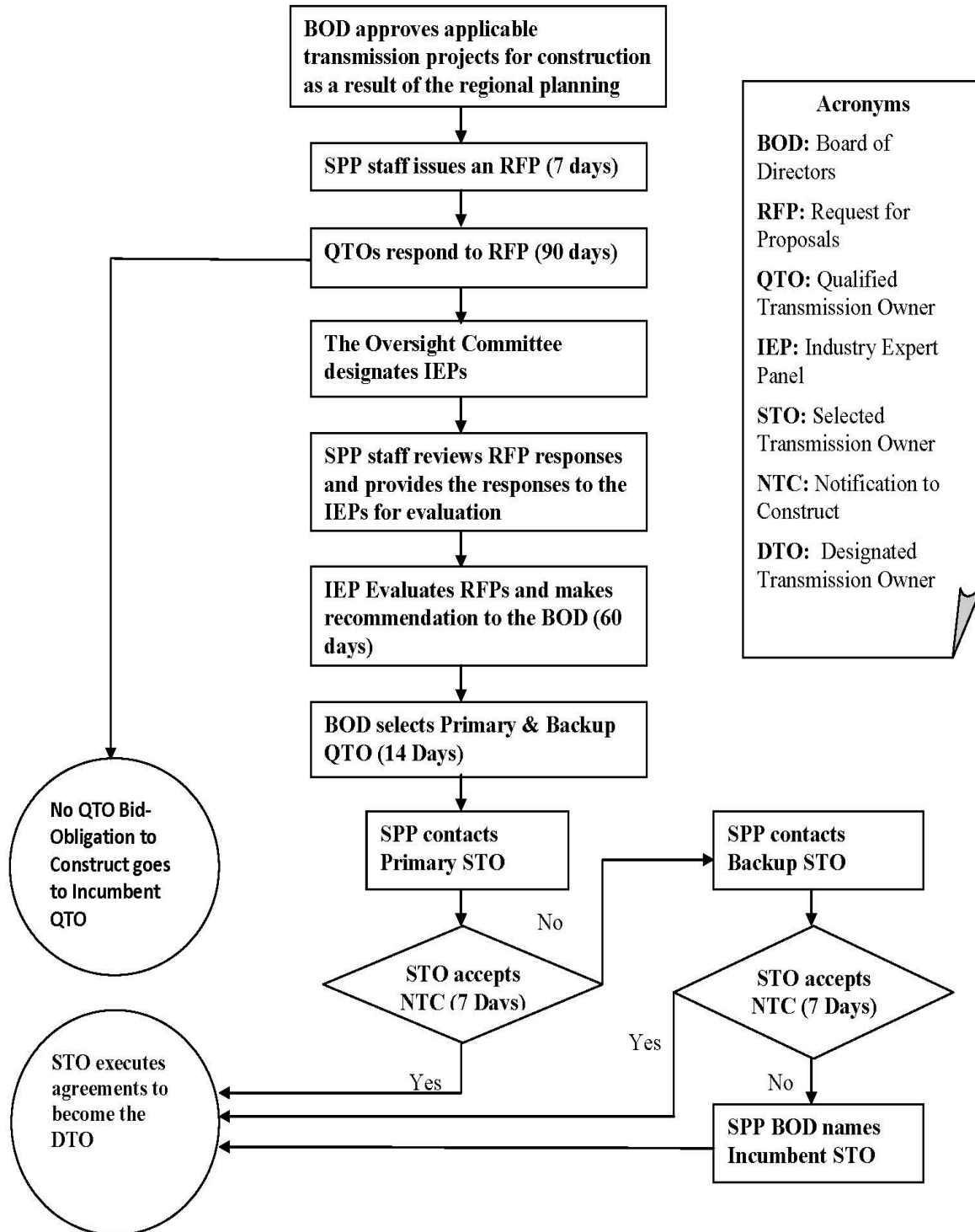
Order 1000 requires each public utility transmission provider to revise its OATT to demonstrate that the regional transmission planning process in which it participates has established appropriate qualification criteria for determining an entity’s eligibility to propose a transmission project for selection in the regional transmission plan for purposes of cost allocation, whether that entity is an incumbent transmission provider or a non-incumbent transmission developer. The SPCTF unanimously recommends that SPP’s compliance filing contain Transmission Owner qualification requirements that must be met **before** a potential Transmission Owner can participate in SPP’s Competitive Solicitation Process.

Recommended Transmission Owner qualification criteria include:

1. Threshold eligibility criteria that will be developed by the SPC Task Force on Order 1000;
2. Financial criteria that will be developed by SPP’s Finance Committee; and
3. Managerial criteria that will be developed by the SPC Task Force on Order 1000 demonstrating ability to site, construct, own and operate transmission projects.

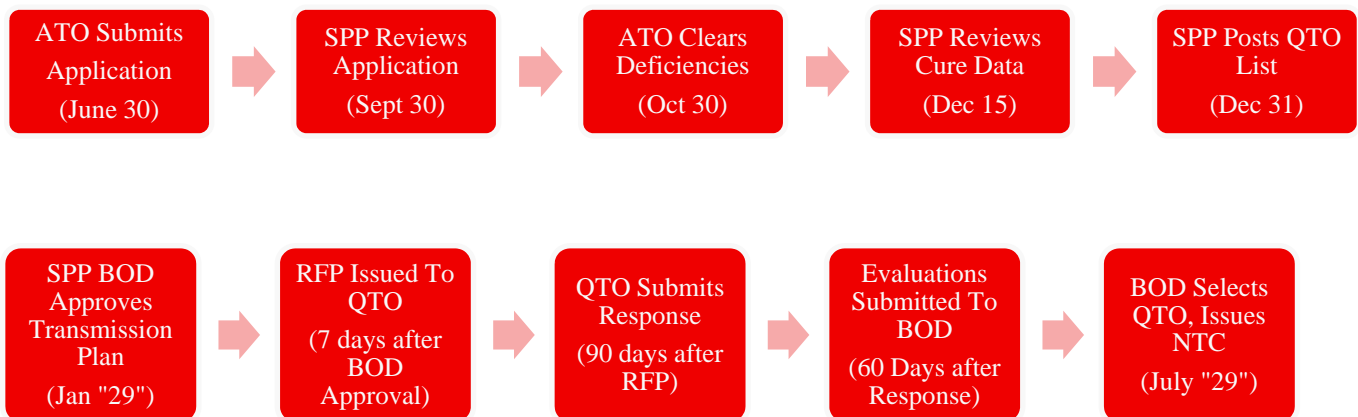
The flow chart below illustrates the Transmission Owner Selection Process recommended by the SPC Task Force on Order 1000.

TO Selection Process Flowchart (6/19/12)



Application and Process To NTC Issuance

The SPCTF’s final report recommends the Applicant Transmission Owner (“ATO”) submit an application to become a Qualified Transmission Owner (“QTO”) prior to June 30 of the calendar year prior to the year the ATO plans to participate in SPP’s Competitive Solicitation Process. SPP will then have 90 days to review the application and make a determination if the ATO meets the requirements of a QTO or if the application contains deficiencies. ATOs submitting applications with deficiencies will have 30 days to cure the deficiencies after being notified of the deficiencies. SPP will then have 45 days to determine if the deficiencies have been cured. A final list of all QTOs will be posted on December 31. Additionally, once qualified, the QTO will not be required to demonstrate its qualifications in any subsequent SPP planning process cycles or with respect to any subsequent SPP Competitive Solicitation Processes unless the QTO experiences a change in circumstances. A simplified timeline of the entire process is illustrated below.



The application submitted by the ATO for consideration to become a QTO will address three areas:

1. **Threshold eligibility criteria:** These criteria address basic requirements to successfully fulfill the role of a Transmission Owner in SPP (example: does ATO meet membership requirements of SPP and have the ability to execute the SPP membership agreement)
2. **Financial criteria:** These criteria are designed to ensure the ATO has the financial capacity to fulfill the role of a Transmission Owner in SPP (example: does ATO have access to sufficient capital to complete transmission project)
3. **Managerial criteria:** An Application from an ATO must include a showing that the ATO has expertise to construct, own, and operate electric transmission facilities.

The Finance Committee Task Force on Order 1000 recommends the following changes to the application process:

1. The ATO will submit an application fee with its application equal to the amount of the SPP annual membership fee. If the ATO is a member who is current in payment of its annual membership fee, then no application fee will be required,
2. Approval is valid for a five year term. After five years the QTO must submit a full application package and be re-approved as a QTO,
3. Prior to June 30 of years 2, 3, 4, and 5 following approval as a QTO, the QTO must submit a representation letter indicating any material changes from the application and representing that the QTO continues to meet the threshold, financial, and managerial requirements to be a QTO,
4. The QTO will pay an annual certification fee equal to the amount of the SPP annual membership fee. If the QTO is a member of SPP who is current in payment of its annual membership fee, then no certification fee will be required.
5. The SPP Board of Directors, in its sole discretion, retains the right to reduce the approval term to respond to unexpected consequences surrounding the application processes.

Financial Requirements

The determination of Financial Requirements is intended to ensure ATOs have the capacity to access capital to meet the project costs plus a reasonable contingency and the ATO is a sustainable entity able to meet the ongoing maintenance requirements of the project. Absent establishment of basic financial capacity, the Competitive Solicitation Process runs the risk of becoming ineffective in actually meeting the objective of developing needed transmission projects because winning bidders may not be capable of performing on the project (i.e. accessing sufficient capital to fund the project).

The Finance Committee Task Force on Order 1000 identified several alternatives intended to determine the financial capacity of an ATO prior to the ATO becoming a QTO. These alternatives are detailed along with potential issues which must be addressed. For purposes of this report the alternatives will be grouped into two categories: i) pre-qualification, ii) post-qualification.

Pre-Qualification

The Pre-Qualification financial requirements specifically address the task assigned by the SPC Task Force on Order 1000 which is to identify minimum criteria to be met prior to awarding QTO status to an ATO.

Investment Grade Rating

ATOs would be required to demonstrate a senior unsecured Investment Grade Rating or an issuer rating from a “nationally recognized statistical rating organization¹”. Investment grade ratings for the three acceptable rating organizations are as follows:

Moody's	S&P and Fitch
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-

An Investment Grade Rating (for purposes of this document) is defined as: If an ATO maintains a rating from all three of the approved NRSROs it must maintain at least two ratings in the investment grade range. Similarly, if an ATO maintains a rating from any two of the approved NRSROs it must maintain at least one of those ratings in the investment grade range.

Guaranty

If an ATO does not have an Investment Grade Rating issued by an approved NRSRO, the ATO may utilize a Guaranty from its parent(s)/affiliated organization(s) that possess an Investment Grade Rating as defined above.

A guaranty obligates the guarantor entity to satisfy the obligations of the guarantee entity. Parental Guaranties are acceptable where the ATO is a subsidiary, joint venture, or affiliate of the parent(s). The guaranty may be cancelled at any time that the ATO establishes an Investment Grade Rating. The guaranty will be in the form consistent with Appendix D of Attachment X of the SPP Tariff and will satisfy the following requirements:

1. Be duly authorized by the guarantor and signed by an officer of the guarantor
2. State a minimum effective period of five years, or provide for automatic renewal subject to cancellation on no less than sixty (60) days notice and provided that in all events the guaranty is effective for all obligations of the ATO undertaken prior to cancellation

¹ A **Nationally Recognized Statistical Rating Organization (NRSRO)** is a credit rating agency (CRA) that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. NRSROs acceptable to SPP are Standard & Poor's, Moody's Investors Service, and Fitch Ratings

3. Include certification of the corporate secretary that the execution, delivery, and performance of the guaranty have been duly authorized
4. Certify that the guaranty is not in violation of other undertakings or requirements applicable to the guarantor, and enforceable against the guarantor in accordance with its terms
5. Obligate the guarantor to submit a representation letter annually as is also required of the ATO/QTO
6. Secure all obligations of the ATO/QTO under or in connection with the SPP Tariff and/or other Agreements; and
7. Be supported by adequate consideration and be otherwise binding as a matter of law
8. Include as an attachment thereto the resolution(s) of the board of directors or other governing body of the guarantor authorizing the guaranty.

Bank Reference Letter or Bonding Indication

A formal letter of reference from a commercial bank, evidence of an existing line of credit from commercial banks (or access to an existing line of credit through Inter-company agreements with a Parent or Affiliate), or bonding indication letter from an insurance or surety company either of which indicate a willingness to extend credit to the ATO in an amount of at least \$25,000,000 (for bank(s)) or willingness to provide surety bond in the amount of at least \$25,000,000 (for insurance/surety company).

Commercial bank reference letters acceptable to SPP will be issued by a financial institution organized under the laws of the United States or any state of the United States or the District of Columbia or a branch or agency of a foreign commercial bank located in the United States, with a minimum corporate debt rating of an “A-” by S&P, “A3” by Moody’s, “A-” by Fitch and total assets of at least \$10 billion.

Bonding indication letters acceptable to SPP will be issued by insurance or surety companies with a minimum financial strength rating from A.M. Best of A- X².

Municipal / Cooperative / Not For Profit Entities

Municipalities, cooperatives and other not for profit entities may meet the pre-qualification financial requirements by providing evidence of direct rate setting authority or taxing authority. The ATO must have this authority and cannot rely on an affiliation to another entity which possesses the rate setting or taxing authority.

² A- rating indicates excellent or superior financial strength. X rating indicates financial size as measured by policyholders surplus of at least \$500,000,000

Post-Qualification

Post-qualification financial requirements are intended to provide assurance that the QTO has the financial capacity to support the individual transmission projects for which bids are submitted. It is expected that post-qualification financial requirements would be incorporated as a critical component of the QTOs RFP response and evaluated by the IEPs.

The SPCTF has worked to craft the requirements of the RFP response. The preliminary work product details the following requirements:

- **General:** The RFP will include an overview of the purpose for the RFP including: the need for the transmission project, regulatory context and authority, confidentiality statement, and other necessary information.
- **Proposal Submission Content Requirements and Procedures:** The RFP will include a deadline for all proposal submissions. The RFP will also identify all minimum bid submission requirements. Each RFP respondent will be required to include all bid conditions in its proposal.
- **Cost and Financial Requirements:** The RFP will require each respondent to provide financial information specific to each transmission project for which it submits a proposal. This information will include, but not be limited to: demonstration of financing and itemized revenue requirement calculations.

The RFP will also detail the entity's financial plan including: pro forma financial statements expected financial leverage, debt covenants, projected liquidity, dividend policy, entity and parent (if applicable) cash flow analysis, etc.

- **Engineering:** The RFP will require each respondent to provide engineering information specific to each transmission project for which it submits a proposal. This information may include, but not be limited to engineering design of the project and technical requirements.
- **Construction:** The RFP will require each respondent to provide construction information specific to each transmission project for which it submits a proposal. This information may include, but not be limited to anticipated project timeline, demonstration of past transmission construction experience, equipment acquisition processes, description of applicable ROW / real estate acquisition process, description of routing process, description of permitting, description of construction clearance processes, and identification of responsible party for construction inspection.
- **Operations and Maintenance:** The RFP will require each respondent to provide operations and maintenance information specific to each transmission project for which it submits a proposal. This information may include, but not be limited to: demonstration of operations, statement of which entity will be operating and maintaining the transmission facility, storm / outage response plan, maintenance plan, staffing, equipment, crew training, and record of past maintenance and outage performance.
- **Information Exchange:** The RFP will include information exchange requirements such as identification of data required to be provided to the SPP in accordance with NERC reliability standards, data of design of the facilities for the Transmission Provider, and CEII requirements.

- **Safety program/Current/past statistics:** The RFP will require each respondent to provide safety information such as identification of the internal safety program, contractor safety program, and safety performance record.
- **Evaluation Procedure:** The RFP will include a description of the proposal evaluation procedure, including the statement of proposal evaluation methodology, criteria for acceptable proposals, and identification of applicable proposal evaluation fees.
- **Attachments:** The RFP will be a standard form that the respondent must fill out and may supplement with attachments demonstrating the information outlined above.

QTO Bid Submission Requirements

The SPP Finance Committee recommends using a threshold approach when evaluating the financial strength of the bidding QTO. The threshold will work like a pass/fail test in that either the QTO satisfies a threshold or it doesn't. SPP has no stated preference on the desirability between the different threshold tests. The QTO needs to satisfy only one of the thresholds to demonstrate its financial strength in the bidding process.

1. **Investment Grade Rating:** A QTO may satisfy this threshold by demonstrating either i) its then-current Investment Grade Rating, if using a parent guaranty, ii) the then-current Investment Grade Rating of its parent [and demonstrating for either the QTO or parent guaranty entity(ies) that for the specific project(s) being bid the total capital cost of the project(s)³ does not exceed 30% of the total capitalization⁴ of the QTO or parent guaranty entity(ies).
2. **Performance Bond:** A QTO may provide conclusive evidence of its ability to secure performance bond(s) from an acceptable insurance/surety company in an amount equal to the total cost of the project plus financing costs plus 30% contingency
3. **Letter of Credit:** A QTO may provide conclusive evidence of its ability to secure letter(s) of credit from an acceptable financial institution in an amount equal to the total cost of the project plus financing costs plus 30% contingency.
4. **Incumbent Utility:** A QTO may satisfy this threshold by demonstrating that it is the incumbent utility for the project by virtue of the project connecting to the incumbent utility's existing transmission assets.

In addition to the threshold requirements described previously, the QTO must also provide the following information:

Evidence of Financing: The QTO or the entity providing the Guaranty must demonstrate an ability to secure capital sufficient to fund the project plus a reasonable amount of contingency (generally

³ Total cost will equal the bid cost plus financing costs plus 30% contingency

⁴ Total capitalization will equal pro forma long-term debt plus equity after accounting for the full cost of the bid project(s)

30%). The evidence may consist of: i) demonstrated history of securing financing, ii) term sheet from investors indicating desire to fund the project, iii) adequate cash, investments, or lines of credit to fund the project plus reasonable contingency. The QTO should discuss, in detail, how it will fund the project, the expected financing costs, etc.

Material Conditions: QTO must disclose any Credit Ratings changes, bankruptcy, dissolution, merger, or acquisition within the past five years of the QTO, parent, controlling shareholder, or entity providing a Guaranty. The QTO must also prove that there are no remaining material issues from any of these aforementioned events.

Financial Plan & Business Plan: Formal plans indicating how the QTO anticipates operations of the project to progress, both during construction and post-construction.

QTO Post-Selection Criteria

Firm Capital Commitment: Upon notification of selection of the QTO to be the Selected Transmission Owner (“STO”) for the project, the STO must provide firm commitment of capital sufficient to complete the project. Evidence can be in the form of a binding commitment letter from lenders and/or equity providers (may be a credit facility or access to a credit facility via Parent(s) and /or equity providers (provided they have an Investment Grade Rating), cash held in escrow, performance & payment/surety bond, etc., existing balance sheet liquidity or demonstrated history of ability to obtain adequate capital to support the project.

Evidence of Regulatory Authority to Construct and Operate Transmission: Authority is generally provided by state regulators.

Execute SPP Membership Agreement: STO becomes a full member of SPP and obligated to all conditions of the Membership Agreement. The SPP Membership Agreement must be executed coincident with acceptance of the NTC.

Deposit: Coincident with acceptance of the NTC, the STO will deposit with SPP cash in an amount equal to 2% of the bid amount. This deposit will ensure diligent performance of the STO to proceed to complete the project per the schedule outlined in the STO’s bid package. Should the STO fail to complete the project and the project has to be re-assigned by SPP to either the backup STO or the provider of last resort (incumbent utility), the deposit will be forfeited by the STO and used to compensate the newly assigned STO to complete the project. SPP will release the deposit upon the STO reaching the 50% completion milestone of the project.