

II. BACKGROUND

Clean Line is an independent developer of high voltage, long-haul transmission lines. Clean Line focuses exclusively on connecting the best renewable energy resources in North America with robust electricity demand centers. Clean Line provides transmission solutions to generators and load-serving utilities to efficiently interconnect clean energy with consumers.

As the United States moves to achieve its ambitious renewable energy goals – 29 states and Washington DC have a Renewable Portfolio Standard (RPS) – a dramatic expansion of the transmission grid is needed to incorporate renewable resources. Clean Line hopes to play an instrumental role in accelerating the delivery of renewable energy from remote resource areas to distant load centers and in achieving U.S. environmental policy goals. The need for lines like those that Clean Line is developing will continue to grow as electricity demand increases in the United States and as the demand for clean power sources accelerates. Over time, more generation will be needed to meet demand growth, to replace existing, older generation that will be retired, and to meet existing and future renewable energy standards. Technology improvements in wind generation, and transmission make the efficient transportation of wind energy more feasible now than ever before.

The most vexing challenge impeding continued growth in the renewable energy industry is the essential expansion of the US transmission grid. Clean Line supports the use of incentives to encourage the development of and bolster the investment in the transmission infrastructure needed to support this increasing demand growth. As the electric industry continues to evolve, it is necessary for incentives policies to evolve as well. Clean Line's proposed projects will ensure reliability and reduce cost by reducing congestion – exactly the type of projects that FERC is looking to encourage.

Clean Line is backed by leading investors who have a track record of successfully developing major energy projects. Clean Line's backers include the Houston-based Zilkha family and ZAM Ventures, L.P, the principal investment vehicle for ZBI Ventures, LLC ("ZBIV"). ZBIV, which focuses on long-term investments in the energy sector, is a subsidiary of Ziff Brothers Investments, LLC.

Clean Line is developing several high voltage transmission lines that will export wind and solar energy from some of America's best resources to load centers and customers in regions without abundant local renewable energy resources.²

III. COMMENTS

As the Commission proceeds to formalize the scope and implementation of its transmission incentives regulations under Order No. 679, it should continue to operate on a project-by-project basis; there is no one-size-fits-all approach to these regulations because each project has a different risk profile. FERC should account for the risks undertaken by each project when evaluating the amount and extent of incentives to offer. When evaluating overall risk, Clean Line believes that it is instructive to consider and weigh the three main types of challenges encountered during projects of this nature:

- (1) **Development risks** are those that are faced prior to construction of the project. They include, among other things, obtaining regulatory approvals and permits, completion of

² Clean Line Energy Partners LLC presently has four major transmission projects underway in the United States. They are (1) the Rock Island Clean Line, a high-voltage, direct current ("HVDC") transmission line that will connect 3,500 MW of wind power from Iowa, South Dakota, Minnesota and Nebraska with load centers in Illinois and states farther east; (2) the Grain Belt Express Clean Line, an HVDC transmission line that will be capable of moving up to 3,500 MW of renewable power from new generation projects in western Kansas to the service area of the Midwest Independent Transmission System Operator ("MISO") and the eastern United States. (3) the Plains & Eastern Clean Line, an 800-mile, HVDC line that will transmit up to 7,000 MW of renewable power from the Oklahoma and Texas Panhandles, and potentially Kansas, to Tennessee Valley Authority and the southeastern United States; (4) the Centennial West Clean Line, an HVDV line that will gather up to 3,500 MW of power from renewable energy generation projects in eastern New Mexico and surrounding areas and will transmit it to load centers such as southern Nevada, Southern California, Arizona, and other areas in the Southwest.

interconnection studies and determination of interconnection costs, obtaining rights-of-way and land, and securing capacity contracts. It is in this phase that fatal flaws are the most probable; therefore, developers who front development capital (i.e., don't recover it through existing rates) face the greatest investment risk.

(2) **Construction risks** include those encountered during the physical construction of the line. Depending on the type of project, some of these risks can be borne by ratepayers through different avenues, such as construction work in progress financing, formula rates, and Regional Transmission Organization ("RTO") cost allocation mechanisms, which increase the chances that a return on investment capital will be realized. This phase constitutes the majority of the investment capital needed to fund the project. The investment risk is slightly less than in the first phase, but the amount of investment is much more. Cost overruns can be significant and ruinous to project economics.

(3) **Operating risks** are those that arise once the line is fully operational. Some, such as maintenance risks, tend to be similar across all projects; others vary depending on the project. One example of variance, and a principal risk, is credit risk. For example, if a project is deemed to be required, and cost-allocated by an RTO through a Commission-approved methodology, its costs are spread across the RTO and are therefore effectively guaranteed by load serving entities. In such a situation, that project's financial risk is fairly low. In terms of credit or counterparty risk, these risks vary greatly depending on the revenue model being utilized by the transmission line. If a project is selling capacity to independent producers, or to load serving entities, then the risks may be higher than if those revenue requirements are met through an RTO's cost allocation mechanism.

Although merchant transmission projects have historically sought negotiated rate

authority and as a result do not receive FERC incentive rates, the future may bring hybrid models of capacity sales and financing. Therefore, it is appropriate to consider these issues at this time.

Transmission projects that face a greater percentage of the risks mentioned above should be granted greater incentives than projects that don't face comparable levels of risk.

One way to effectuate this risk/reward standard would be to employ a sliding scale model using a case-by-case analysis based on the amount of actual risk undertaken during the life of a project. Projects with a high risk profile would benefit from a greater incentive pool, with the allowed incentives reduced in proportion to the amount of reduced or alleviated risk. Projects often benefit from other incentives that lessen their risk, e.g., recovery of costs in the event of project abandonment; however, merchant transmission developers do not have that advantage. Therefore, a sliding scale model would encourage transmission projects that are vital to the distribution of remote renewable resources to move forward.

Clean Line agrees with the Commission that the most compelling candidates for multiple incentives are new projects that present special risks or challenges, not routine investments made in the ordinary course of expanding the system to provide safe and reliable transmission service. Clean Line encourages the Commission to consider the following when evaluating what qualifies as special risks and challenges: permitting hurdles, the policy environment, cost recovery, and backstop authority. Interregional projects being developed by merchant transmission developers attempting to provide solutions to renewable integration while simultaneously tackling regulatory and permitting statutes that weren't drafted to accommodate independent or non-incumbent transmission companies, or long-distance multi-state projects face substantial and

unique risks. Such projects are vital to enabling generation demand growth, and should have the opportunity to take advantage of greater incentives.

In addition to the amount of incentives offered to different projects, another important issue is the duration of the incentives once they are granted to a transmission project. Clean Line believes that once rate incentives are granted by FERC, they should be locked in for a reasonable length of time, e.g., the longer of 30 years or the longest term contract for transmission services on the proposed project. FERC should ensure that once the project is built and the risks fade, the incentives remain in place. A deal is a deal; the terms should be honored regardless of any change in market conditions. If a developer or the lenders financing the project are not confident that the risks taken and overcome during construction and development will be adequately compensated – not just compensated until the risks are alleviated – it decreases the likelihood that projects needed to strengthen the grid will get built.

IV. CONCLUSION

Clean Line commends FERC's Notice of Inquiry as a positive step towards addressing the need for reforms in transmission incentives regulation and policy to promote the development of transmission infrastructure. Offering higher incentives to projects that risk greater amounts of unprotected and at-risk capital is necessary to ensure that those projects come

to fruition. Employing a sliding scale model to evaluate risk and committing to honor incentives for a reasonable length of time will encourage the development of necessary transmission projects and will further FERC's goal of bolstering reliability and reducing costs through a reduction in congestion.

Respectfully submitted,

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