US Electric Utilities & IPPs

Clues on Competitive Transmission from California (Incl. Conf. Call Transcript)

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Our latest call with CAISO focused on the success of its

We hosted our latest conference call on California ISO's (CAISO) FERC 1000 competitive solicitation process with Anthony Ivancovich, Deputy General Counsel of CAISO. We look towards CAISO for broader insights into the novel requirement that all RTOs will be required to host these competitive solicitations under compliance with FERC Order 1000, with California having already held three solicitations dating back to 2010. Our overall take remains that competitive solicitations will not prove as destabilizing as many have feared of late, with competition thus far remaining modest – and with incumbents continuing to participate actively (and win) projects in their service territory. We remain comfortable with our constructive view on transmission, reiterating our Buy rating on shares of ITC. Our broad concern remains whether the uncertainty of capex will lead to investor preference for utilities that do not participate in RTOs, and retain control over transmission planning and project selection (despite nominally being subject to FERC 1000's requirements as well).

Cost has not been the only criterion for project selection

The call emphasized that costs were not the only criterion emphasized (and projects were not ranked order on this basis), with other factors ultimately playing into the awards thus far such as viability, developer experience, and potential for a third-party regulator (such as the CPUC) to impose a cost cap subsequently. Projects participating in the solicitations have the option of submitting a firm price cap, however, few thus far have opted to do so. The logic here is that relying upon sponsors' estimations could result in 'gaming' of the system which runs in opposition of the objective to control costs. To date proposals with cost caps have included force majeure clauses or are only loose caps with the clear preference of developers at this point to support uncapped projects. While the ISO does not have pre-assigned weightings in the tariff like other ISOs employ as to reflect the need to balance different project types (ex. reliability versus public policy), they do provide guidance on a solicitation-by-solicitation basis for sponsors to consider. The full transcript from the call is enclosed.

California started early, but it's about to expand to reliability projects too

CAISO's initial focus for its three solicitations were public-policy focused (effectively all RPS-related), however under FERC 1000, seemingly all reliability projects over 200kV will now be evaluated through this process. This year, CAISO anticipates putting up at least five projects for solicitation, substantially expanding the extent of its program- and potential size of projects. The initial three projects were relatively modest, ranging from just ~$20 Mn for the first, to ~$100 Mn for the Gregg-Gates line (awarded to a consortium including PG&E, MidAmerican and Citizens Energy), and lately the ~$100+ Mn Sycamore line to SDG&E. Both independent developers and incumbents have participated in each of the solicitations thus far, with the latest Sycamore project receiving separate bids from two utilities and two non-transmission owners.

Not all RTOs are created equal: Look for each market to craft its own rules

With each RTO currently developing the criteria for their competitive solicitation projects, we caution investors that each region appears poised to impose modestly different approaches to these procurements. In particular, we flag PJM appears poised to solicit broader transmission 'solutions', whereas MISO and SPP appear more oriented towards asking for bids on specific projects (ie- from Point A to Point B). We look for greater clarity in the medium term with the results from PJM's inaugural Artificial Island solicitation in NJ, where we understand results are forthcoming in the near term per a recent PJM presentation delineating current project proposal costs. As for MISO and SPP, we look for finalized criteria and an initial project qualification process in 2014.

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Conference Call Transcript

The following are highlights from our call with CAISO. The comments below have been edited to improve grammatical clarity and provide enhanced context.

Replay:

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Operator: Ladies and gentlemen, thank you for standing by. Welcome to the UBS Electric Utilities Conference Call. As a reminder, this conference is being recorded Tuesday, April the 22nd, 2014. I would now like to turn the conference over to Julien Dumoulin-Smith, Electric Utilities Analyst. Go ahead.

Julien Dumoulin-Smith: Thank you operator and good afternoon everyone. We will speak with Anthony Ivancovich, Deputy General Counsel of CAISO to discuss the FERC 1000 competitive bid project selection.

As some of you may be aware, California is a bit ahead of peers and in some regards should prove insightful in thinking about the process overall as we see this take place across all the RTOs nationally.

As usual, today there are no company slides. Anthony will be providing introductory remarks about FERC 1000 process and how it's been implemented in California.

Anthony Ivancovich: Thank you very much.

I will start off with a little history of the ISO's transmission planning process, briefly walk through our current process and then discuss how our competitive solicitation process works going from qualifications, project sponsorship, the selection criteria and the standard we apply, etc. I will conclude with how we finalize this all in a report that we publish.

In 2010, well before Order 1000 was issued the ISO took a really holistic examination of its transmission planning process and decided that a number of changes were necessary in large part because of the RPS goals here in California.

One of the things we did propose back in 2010 was to institute a public policy category of transmission where we would approve transmission projects to meet public policy needs.

At that time, <u>we also basically shifted our framework **from a bottom up transmission planning process to a top down** planning process where we would identify the transmission needs.</u>

As part of that, we also implemented a competitive solicitation as part of the revised transmission planning process where we would identify projects that were needed. <u>At that time, it was only open to economic projects and public policy projects since Order 1000 has now been expanded to the reliability projects as well</u>.

So basically I think we were pretty fortunate as Julien said. When Order 1000 came along, we felt we were substantially in compliance with the order and had gone a long way by already having public policy transmission and by also having the competitive solicitation process.

<u>Today our transmission planning process basically operates in three phases. In Phase 1, we basically develop our study plan. We developed the planning assumptions for the studies. We identified what public policies we may want to be looked at and which may inform our transmission planning process.</u>

In Phase 2, we do all the technical studies for the liability analyses, economic analyses determining what economic public policy and reliability needs we have and determining what transmission solutions are needed.

That basically culminates. **As pursuant to Order 1000, we're required to basically approve the transmission solutions that are the more cost effective measures.**

We do that by reviewing stakeholder comments, by doing our own analyses to determine which projects meet our needs in the more efficient or cost effective manner.

<u>This culminates with a recommendation or a Board of Governors and an annual transmission plan. They usually approve at their large Board meeting.</u>

Unlike some other planning processes, we are mainly a top down planning approach. <u>We will identify what transmission is needed and we will identify the actual transmission solution that needs to be built</u>. It is that transmission solution that goes into our competitive planning process.

Consistent with Order 1000, the ISO eliminated all rights of first refusal except for upgrades to existing transmission facilities and for local transmission projects.

Under our tariff, a local transmission project is basically anything under 200 kV. **<u>For projects above 200 kV, those are considered regional transmission projects and all of them are open to competitive solicitation.</u>**

We don't have short-term reliability projects as well as economic projects, public policy projects. There's basically no room for any of that.

<u>Following the Board approval, before we head into the competitive solicitation process, we do a number of things.</u> Once it's identified the projects that are going to be open for competitive solicitation, and this is part of a change that came about as Order 1000, we put out a basically a list of the key selection criteria.

So basically for each project we will identify which of our selection criteria we believe are particularly key for that project. This is really more of the purpose of guiding any

potential project sponsors to give them some guidance to know on what they probably ought to be focusing on and the areas that are going to be extremely important to us.

That being said, we are required under our (tariff) to consider all of our selection criteria and I'll get into those in a bit. But there I think in every solicitation, certain criteria that are probably more important than other criteria.

In our process, we basically have a separate qualification process and selection process. We usually open our window around April the 1st of each year and give project sponsors about 60 days to prepare their applications to compete for specific projects.

The information in our application basically is all encompassing. They have got to provide information with our qualification criteria, selection criteria and cost. It's a pretty thorough document.

This year we've instituted a process where it has to be accompanied by an officer's certification that everything is true to their best in knowledge and belief.

This year, starting with the current competitive solicitation, we will also be charging a $75,000 deposit for all project sponsor applications. It's refundable to the extent we don't spend that much money on a particular solicitation. We've also agreed to tape the cost that we would recover from project sponsors at 150,000 per solicitation.

With respect to our qualification criteria, we divided it into two categories. We have the project sponsor qualifications and we have what we call the project proposal qualifications.

The project proposal qualifications are really pretty simple. It's basically the transmission solution that you're proposing consistent with the specific project we've identified in the transmission plan and your proposal proposed design basically consistent with all applicable reliability criteria and the ISO planning standard.

As far as qualification criteria, I think what we have is pretty consistent with what most of the other ISOs and RTOs have. I can briefly list those.

Basically a project sponsor has to show that it is assembled a sufficient site's team that has the knowledge and skill to design, construct, operate and maintain the transmission solution.

In our recent compliance order from FERC, I think FERC has made an amendment that an entity could also show that it plans to assemble such a team.

The project sponsor also has to demonstrate that it has sufficient financial resources to build the project and including its ability to assume any liability for major losses.

As part of the qualification, a project sponsor has to show that its schedule meets the ISO's requirement and that it has an ability to meet the proposed schedule.

Another qualification criterion is basically that the project sponsor and its team have the necessary technical engineering qualifications and experience to design the project, construct it, operate it and maintain it. The last requirement is basically that they agree to sign our transmission control agreement to become a participating transmission owner.

Once an entity submits the project sponsor application, we basically go through it for two purposes at the start. One is to make sure they've answered all the questions. And if we have any clarifying questions or we need - there's questions that still need to be answered, we give them an opportunity to cure any deficiency.

Following that we will look at the qualifications of the independent - of each project sponsor. To the extent somebody is not qualified, we will provide them a cure opportunity.

One of the other aspects of our solicitation process that is somewhat unique is that we allow a collaboration period

after all the project sponsor applications have been submitted, to all potential project sponsors to get together and maybe agree to submit a proposal jointly. Our ultimate hope is that folks would get together and we wouldn't have to go through the solicitation process, but they could agree on one project and basically jointly propose to build it.

We've had three solicitations thus far and there have not been any collaborations yet although some parties have done the collaboration aspect prior to submitting their applications, which too was encouraged.

Following the assessment of qualifications, we then get into the selection criteria and evaluating that for each of the project sponsors.

I should note that as part of our tariff, the ISO is required to retain an expert consultant to assist us in making our decisions regarding who should become an approved project sponsor for a specific project.

I'm going to have to read from the tariff here because this is a bit of a mouthful. The specific standard that the ISO applies in determining who the project sponsor is as follows:

Basically the purpose of the comparative analysis is to take into account all transmission solutions proposed by competing project sponsors seeking approval of their transmission and to select a qualified project sponsor, which is best able to design, finance, license, construct, maintain and operate a particular transmission facility in a cost effective, efficient, prudent, reliable and capable manner over the lifetime of the facility. The sponsor should also maximize overall benefits and minimizing the risk of untimely project completion, project abandonment and future reliability, operational and other relevant problems consistent with good utility practice, applicable reliability criteria and the CAISO document.

Like I said, that's a mouthful. That sums up the standard that the ISO applies in selecting a project sponsor. To make that determination, we basically drew a comparative analysis of all of the project sponsors for each of the selection criteria

and for each of the qualification criteria that I had previously mentioned.

Currently, we have ten selection criteria in addition to the qualification criteria that we look at. I will discuss them briefly. They basically include the following: the capabilities of the project sponsor and its team to finance, license and construct the facility and to operate and maintain it for the life of the solution.

Two, we look at the project sponsors existing rights of way in substations that might contribute to the transmission solution that's going to be built. Three, we look at the experience of the project sponsor and it's team in acquiring rights of way that will be necessary for the projects.

Another item that we added to that in response to FERC Order 1000 is if the project sponsor is going to use existing right of way, they basically have to indicate whether they'll incur any incremental costs by placing new or additional facilities on that existing right of way.

The fourth selection criteria we look at is the proposed schedule for the development and completion of the transmission solution and the ability of the project sponsor and its team to meet that deadline.

The fifth factor or the financial resources of the project sponsor and basically we look at everything the project sponsor is going to provide from credit report to financial statement, letters of credit and anything that the project sponsor is willing to provide we will take into consideration.

Six, we look at the technical and engineering qualifications and experience of the project sponsor and his team. We also look at the previous record regarding constructions and maintenance of the transmission facilities including facilities that you might have outside of the ISO territory.

In our recent compliance order from FERC, they also added a requirement that for some folks who have not built transmission in the past, they basically can satisfy this

standard by providing a plan on how they are going to construct and maintain these facilities.

Another factor we look at in the selection criteria is the demonstrated capability of a project sponsor to adhere to standardized construction, maintenance and operating practices.

We also look for a demonstrated ability of the project sponsor to assume liability from major losses. This is really related to financial capability.

Next to last, it's been an important consideration in a lot of the FERC cases— cost.

For the ISO, our cost criteria basically states as follows: **We look at the demonstrated cost containment capability of the project sponsor and its team and specifically that means binding cost control measures that a project sponsor agrees to accept including any binding commitment of the project sponsor to accept a cost cap.**

To the extent none of the competing sponsors propose a binding cost cap, we can then look at whoever they intend to go to get their siting authorization to see if that agency has the ability to impose a cost cap on them.

For example in California, the California Public Utilities Commission has the statutory right to impose cost caps on the construction of new projects. So if no sponsor was to propose a cost cap and certain project sponsors were going to the California Public Utilities Commission, that is a factor we could take into consideration.

I think one point that is really important to stress is that I know unlike others, the California ISO does not consider cost estimates. To the extent somebody proposes a binding cap, agrees to forego a specific cost or something along that nature, we will consider it, but we will not take a look at project sponsor cost estimates and rank them based on what they think they can build the project for.

The reason we did that is basically out of the concern that project sponsored cost estimates could be gamed and that folks could basically get selected for the project.

FERC has approved that in our Order 1000 order. They previously approved that when we filed our revised transmission planning process back in 2010.

We basically give project sponsors an opportunity to show any other strengths or advantages. They have to build a specific project or any efficiencies or benefits that they can indicate they can provide from their proposal. So it's basically an open ended criteria to capture matters that we may have not caught with the prior selection criteria.

The time to submit projects begins in April. Projects are usually submitted by June. I believe we already asked of them. We've had three competitive solicitations thus far and it would usually take until about the October or November timeframe for us to make a decision on these.

It's actually a very deliberative process. It's very time consuming and we're reviewing a significant amount of information. So it takes a fair amount of time to get through these applications.

At the end of our process, the ISO does publish a report of who we selected. We basically go through every qualification criteria, every selection criteria and basically set forth our comparative analysis of all the project sponsors and how it comes out for each of the criteria. Then we have the conclusion indicating who we selected and why. All of that is publicly available and it posted on the CAISO website.

Julien Dumoulin-Smith: Great. Well, thank you very much Anthony. That was exhaustive. I wanted to just start out. One of the pervasive fears from the finance community has always been the cost of capital.

Can you provide a little bit of context on how you all are viewing ROEs in proposed projects? Is that even coming up?

Is that included in the tariffs and the overall cost filings that you're getting?

Anthony Ivancovich: One of the ways we would consider it if a specific sponsor was to come out and basically say we make a binding cost commitment that we're not going to seek an incentive ROE or we're going to make a binding commitment that we will agree to a return on equity of X percent and nothing higher. That is something we would take into account.

Again, we only look at binding commitments. We do not look at any estimates of what their return on equity might be, what project sponsors think they can get.

You have to make a binding commitment that your return on equity is going to be X or that you're going to forego an incentive return on equity. That's just a couple of examples.

Julien Dumoulin-Smith: Excellent. Do you see a lot of folks coming up and saying will I want to do a specific cost cap project or ROE project? Is that commonplace?

Anthony Ivancovich: I think if you read one of our very first solicitations I know the Imperial Litigation District, which is the winner, agreed to a binding cost cap for everything except force majeure event. I know I'm not disclosing anything that's not public here.

Also our last solicitation we have one project sponsor that agreed to a very open ended cost cap. Again, I can state that our goal is to contain cost and to effectively do what you need to agree to a binding cost cap that's going to limit you to a cost no more than X amount.

The way the ISO enforces the cost cap is once somebody agrees to a binding commitment, if we select that project sponsor, we will have an approved project sponsor agreement that we will submit to FERC that basically is going to commit the project sponsor to whatever cost commitment it made in its application.

Julien Dumoulin-Smith: I'm curious what you say about commitment here. When I think out loud about it, just how do you define or have you experienced any force majeure type events thus far? Conventionally compared to the rate based paradigm we've always seen some projects end up costing more than we thought originally.

It would seem intuitive that a lot of transmission projects and pipeline projects in years past have tended to or many have tended to go above budget. How do you think about that and have you experienced that thus far given the three solicitations that you've done?

Anthony Ivancovich: In the solicitations we've done thus far, most people have not proposed any type of cost cap. No one's proposed a cost cap with a force majeure and one other participant proposed a cost cap. But again, it was a very open ended cap that didn't specify everything and said it could change as a result of whatever the CPUC did.

All of the project sponsors have expressed a willingness to discuss a cap after the fact. But again, we need something to base our decision on that's concrete.

Anthony Ivancovich: All of the project sponsors also basically are required to show what cost containment measures they keep in place. You know, what checks and balances they have, how they control cost.

Again, we look at that. But I think to have the ultimate impact on cost, it needs to be a concrete commitment to a fixed cost or a commitment to maybe one particular cost such as return on equity. To date no entity has agreed to a binding return on equity at a set amount.

Julien Dumoulin-Smith: That makes a lot of sense. In terms of outsiders coming in, have we seen a lot of third parties win projects that otherwise would have been developed by call it the local utility? What is the record has been in far for you all.

Anthony Ivancovich: Okay. Thus far we've got three solicitations. The first one was won by the Imperial Irrigation District. This was a projected that was located down in the Imperial Valley. IID

was not an existing participating transmission owner of the ISO.

So by basically winning that project once it's completed and turned over to the ISO operating control, they will become a new participating transmission owner.

The second solicitation was basically a collaborative effort between PG&E, a MidAmerican and Citizens Energy. PG&E and Citizens are both existing ISO PTOs. MidAmerican is not. So once that facility is built and turned over to the ISO's operational control, MidAmerican would become a new PTO in the ISO.

The third competitive solicitation was won by San Diego Gas and Electric Company and they are an existing ISO/PTO.

Anthony Ivancovich: I haven't said it yet but for this upcoming cycle, We currently have five projects that are going to be subject to competitive solicitation and there's a possibility for some more but those are still being studied. But at a minimum we will have five competitive solicitations this go round.

Julien Dumoulin-Smith: Excellent. I suppose also how robust are the solicitations themselves? How many participants are we seeing ultimately? How many non-traditional actors are we seeing getting involved?

Anthony Ivancovich: The first one, which was a very small project, was around the $20 million range. The one that IID won, we only had two participants. In the Gates-Gregg transmission project in PG&E service territory, we had five submissions. For the Sycamore-Penasquitos Project down in San Diego, we had four submissions. Two were by existing participating transmission owners; two were non-PTOs.

Julien Dumoulin-Smith: Great. Then I suppose in terms of the project variability themselves, how different are the projects being proposed? I mean is this ultimately edging towards hey, I can build the same thing but cheaper and I have more credibility or is this about pretty dramatically different solutions?

Anthony Ivancovich: No. Again, when we went to this top down planning process in 2010, as a result of that, the ISO basically says here's the facility that needs to be built and project sponsors to compete to build that project.

But, we will basically say we need a line from Point A 500 kV line from Point A to Point B and they in a substation in this locale.

So it's fairly specific and the ISO will put out the functional specifications for the project. We are very specific about what we need.

In our last solicitation, the one in San Diego, we recognized that the project could be built above ground or possibly underground. We did leave open the possibility that project sponsors could either propose over-heading of it or an underground solution. But typically we are going to be very proscriptive in terms of the type of facility that can be proposed.

Julien Dumoulin-Smith: Excellent. Appreciate it. I suppose when you're thinking about these projects in your discussions with other RTOs, what's your understanding of how other RTOs are going to implement similar FERC 1000 solicitations?

Anthony Ivancovich: I think everybody does it differently. Again, we all come from different starting places. Again, the CAISO came from a starting point where we already had a competitive solicitation. So we were going to be headed in that direction.

I believe, two of the other ISOs have adopted competitive solicitations that are similar yet have some differences compared to ours. There are other ISOs and RTOs that I think did it more the way we used to do it, where they don't have the competitive solicitation but parties are submitting projects to meet needs identified in the planning process.

I think a lot of that has to do with where everybody came from or what were the specific outcomes of their specific stakeholder processes. Our Order 1000 compliance was definitely influenced by where we were coming into it.

I think we were very fortunate in that respect that we had already had a competitive solicitation in place and in FERC Order 1000 they actually noted that we had a competitive solicitation already in place and that was fine for purposes of meeting Order 1000. So that was very helpful to us.

Julien Dumoulin-Smith: Excellent. Could you be more specific about what you're seeing the other RTOs do?

Anthony Ivancovich: For example, SPP has specific weights for each of their selection criteria. We don’t have this.

We basically take a holistic look at all the qualification selection criteria and make a decision based on a holistic overview of everything. We were concerned that having that is difficult to have pre-assigned weights in your tariff because projects are different.

The reliability projects aren't the same as economic projects, which aren't the same as public policy projects. In one case, you may have a more urgent need to have the project in place by a certain date. In other instances, it's less important. You really got to look at each project individually to determine the important factor for that project.

I think we've tried to reach the middle ground in our Order 1000, when we agreed that prior to each competitive solicitation for each project, we would specify which selection criteria we thought were the most important ones for that project.

Again, they can especially hone their efforts on the particular questions directed toward those criteria. As I indicated before, we're required to consider all of the criteria, not just the ones we mark as the key selection criteria.

I think PJM and New England does it more along the lines of how we used to do it, where they identify a need. An entity can submit different projects to meet that need. There's not really a competitive solicitation per se.

I apologize to any of the other ISOs or RTOs if I've butchered what they do. But that's my understanding.

Julien Dumoulin-Smith: To what extent are you expecting the skill these kinds of projects up? You talk about having a certain criteria with which to evaluate projects and those above 200 kV are going to be subject to the solicitations.

Are we going to see a scaling up of the number of these projects annually? Does it start small? Can you talk about that? Is the criteria a moving target to the extent to which that the successful solicitations will result in more solicitations?

Anthony Ivancovich: I think in our turf, it's not really subjective. Basically any facilities transmission solution that we find is needed that's above 200 kV. It is not an upgrade to an existing transmission facility automatically. It has to be subject to competitive solicitation.

So we don't really control what does or does not get subject to competitive solicitation. Basically anything above that number is automatically subject to it.

I think we're going to see it as a result of Order 1000, which is basically going into effect with this. This will be the first competitive solicitation that we've done under Order 1000. Already, I think we've seen an increase in the number of competitive solicitations.

The main reason for that is that prior to Order 1000, reliability projects were not the subject of a right of first refusal. So they would not have been subject to competitive solicitation. Only economic projects and public policy projects would have been subject to that competitive solicitation.

Now reliability projects, economic projects and public policy projects are all open to competitive solicitation. I think we will see an increased number of solicitations each year compared to what we've had in the past.

I pretty much support that. The projects we're looking at now are reliability projects. In prior years they would not have been subject to a competitive solicitation.

Julien Dumoulin-Smith: So the inclusion of reliability projects is the real change here.

Anthony Ivancovich: Yeah. That's the big driver.

Julien Dumoulin-Smith: Then secondly, I suppose the big question I have is around public policy here. There's a big line I suppose contemplated going into Arizona that will be funded by CAISO. Could you talk about those policy enabled projects? I supposed that's a new concept itself in these. Can those be funded by CAISO even if they're outside of the state?

Anthony Ivancovich: Yes. Projects that are located outside of the state can be funded if the entire project is going to be turned over to the ISO's operational control. I think the project in Arizona is really a more of an economic project and it provides net economic benefits, which is one of our categories.

Public policy projects are really projects that are right now the key drivers, meaning 33% RPS. We have a requirement the state to meet 33% RPS by 2020. A lot of transmission is being built to achieve that goal. That would be a public policy project.

However, I caveat that by saying at the start of each annual transmission planning process, stakeholders are given the opportunity to bring up other public policy requirement that they think we ought to be looking at for purposes of building transmission. Thus far RPS has been the key driver.

Julien Dumoulin-Smith: To get a sense of scale, what portion of total spend is subject to and under this solicitation? What is the total pie of spend when you think about the size of the market?

Anthony Ivancovich: I think relatively small compared to the overall size of the market. I guess it really depends, if we were to have a really large project, the Sunrise project from several years ago that was probably close to $2 billion. Obviously that would be a bigger driver.

Thus far, the competitive solicitations we've had thus far have been the Imperial Valley one, which was only about $20 million. I'm not certain but I think the Gates-Gregg was about 150 million. Off the top of my head, I don't remember what the Sycamore-Penasquitos was— it was somewhere between 100 and 200 million.

So we have not had any really large projects yet. To the extent the Colorado River project is ultimately approved by our Board, that would go to competitive solicitation. That's a several hundred million dollar project.

But in the whole scheme of things, once approved in our plan, once approved to the generator interconnection project, it's I think still a relatively modest amount that is going to competitive solicitation at this point in time.

Again a lot of projects are just upgrading existing facilities or reconducting facilities to meet NERC standards. I think it's our anticipation that in the future, the bigger cost projects are likely going to be the ones subject to competitive solicitation because they're usually going to be the ones above 200 kV.

So I think really, this is just the initial stages of this process. But I think, we're going to see more and more things going to competitive solicitation as the years go on. I would probably expect that those are going to be the bigger dollar projects just given the magnitude involved.

Questionner#1: Okay. Great. Thanks for doing this. It's been very informative. I just had a question with regards to the three competitive solicitations that were awarded. Were they solely based on reliability?

Anthony Ivancovich: The five projects that are definitely going to competitive solicitation are reliability projects. They're basically three substations and I think reactive power at two locations on the system.

The Colorado River project, which would by far be the largest project, would be an economic project. It is basically providing net economic benefits, primarily congestion relief. If you look at our transmission plan each and every year, the bulk of the plan is comprised of reliability projects. As required by FERC, we can do up to five economic planning studies a year.

That's basically where the economic projects would come if folks submit an economic planning study and we believe a project would provide economic benefits.

Some of the competitive solicitations that we've already held was a pure public policy project and the other two were a combination of reliability and public policy. Prior to Order 1000, we did have something in our tariff that basically said if a reliability project also provided a certain threshold of economic or public policy benefits, it would be subject to competitive solicitation.

So even though the Gates-Gregg and the Sycamore-Penasquitos projects were reliability projects, they met the threshold of public policy or economic benefit and therefore were subject to competitive solicitation.

We don't have that provision anymore now that basically everything that's a regional project be it reliability, policy or economic. They're all subject to competitive solicitation if they're above 200 kV or so.

I would expect in the future it's likely that reliability projects are going to be most of the competitive solicitation. Although again, there is a strong possibility the 33% RPS will increase in the future. You could see more public policy projects coming up down the road.

Julien Dumoulin-Smith: All right; well thank you all for joining. I think with that we'll conclude today's call.

Anthony Ivancovich: Well thank you very much. I appreciate everybody participating and listening in. If you have questions about our planning process or our competitive solicitation process,

do not hesitate to give me a call or email me. I'd be happy to answer any questions.

Julien Dumoulin-Smith: Thank you very much again.

Statement of Risk

Risks for Utilities and Independent Power Producers (IPPs) primarily relate to volatile commodity prices for power, natural gas, and coal. Risks to IPPs also stem from load variability, and operational risk in running these facilities. Rising coal and, to a certain extent, uranium prices could pressure margins as the fuel hedges roll off Competitive Integrateds. Further, IPPs face declining revenues as in the money power and gas hedges roll off. Other non-regulated risks include weather and for some, foreign currency risk, which again must be diligently accounted in the company's risk management operations. Major external factors, which affect our valuation, are environmental risks. Environmental capex could escalate if stricter emission standards are implemented. We believe a nuclear accident or a change in the Nuclear Regulatory Commission/Environment Protection Agency regulations could have a negative impact on our estimates.

Risks for regulated utilities include the uncertainty around the composition of state regulatory Commissions, adverse regulatory changes, unfavorable weather conditions, variance from normal population growth, and changes in customer mix. Changes in macroeconomic factors will affect customer additions/subtractions and usage patterns

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UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	**Definition**	**Coverage**[1]	**IB Services**[2]
Buy	FSR is > 6% above the MRA.	47%	33%
Neutral	FSR is between -6% and 6% of the MRA.	42%	34%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	**Definition**	**Coverage**[3]	**IB Services**[4]
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2014.
1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Securities LLC: Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

Company Disclosures

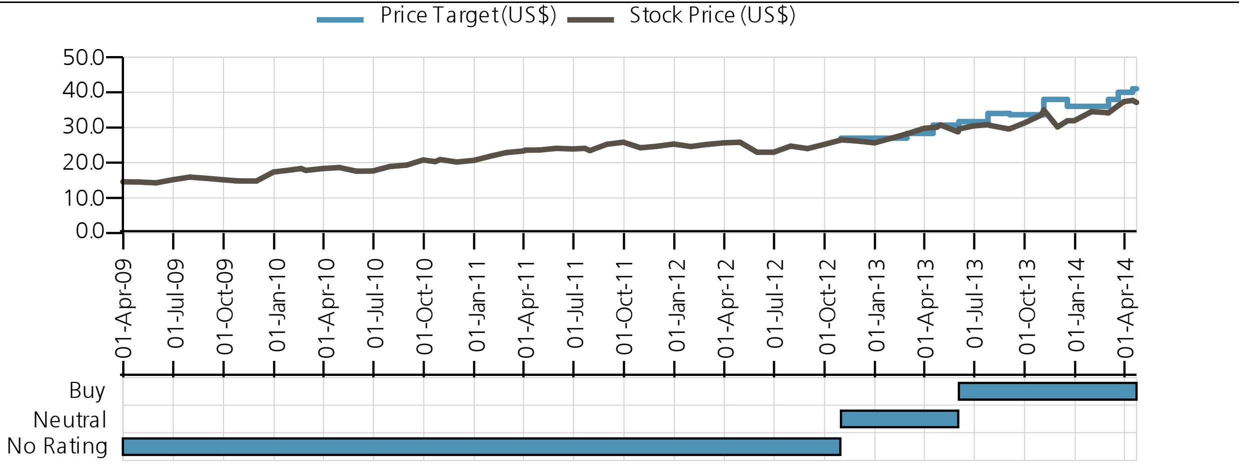
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
ITC Holdings Corp[16]	ITC.N	Buy	N/A	US$37.15	23 Apr 2014

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

ITC Holdings Corp (US$)



Source: UBS; as of 23 Apr 2014

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