

**Strawman Proposal of the South Carolina Public Service Authority
and South Carolina Electric & Gas Company
for Coordinated, Open and Transparent Transmission Planning
Under FERC Order No. 890**

South Carolina Public Service Authority and South Carolina Electric and Gas Company have agreed to jointly satisfy the 9 planning principles required in FERC Order No. 890. The information below is a document describing this joint process.

Strawman Proposal of the South Carolina Public Service Authority and South Carolina Electric & Gas Company for Coordinated, Open and Transparent Transmission Planning Under FERC Order No. 890

I. Introduction

This strawman proposal for coordinated, open and transparent transmission planning is advanced by the South Carolina Public Service Authority (“Santee Cooper”) and South Carolina Electric & Gas Company (“SCE&G”) in response to Order No. 890, issued by the Federal Energy Regulatory Commission (“FERC”) on February 16, 2007.

As explained below, the state of South Carolina has a long history of cooperative and coordinated planning between utilities and their customers and among neighboring utilities, in the following interrelated settings: (1) at the utility level; (2) at the sub-regional level (VACAR); (3) at the regional level, under the auspices of the SERC Reliability Corporation, Inc. (“SERC”); and (4) between utilities in the region pursuant to ongoing coordinated planning among interconnected utilities.

Santee Cooper and SCE&G believe that the processes already undertaken in the region satisfies major elements of the Commission’s nine planning principles. Yet, in recognition that more can be done to introduce additional transparency and the opportunity for more input into the transmission planning process, Santee Cooper and SCE&G have developed this proposal in order to promote a more open, transparent and coordinated approach to transmission planning in South Carolina. The elements of the approach currently undertaken by Santee and SCE&G, and the new features proposed in order to address in an organized way the nine planning principles that the Commission has articulated in Order No. 890, are outlined below.

II. Transmission Planning in South Carolina

A. Existing Framework

1. Local or Individual Transmission Planning

Appropriately, Transmission planning in South Carolina begins at the utility level, as utilities plan to meet commitments to serve native load, network integration transmission service, generator interconnection service, grandfathered wholesale agreements and firm point-to-point transmission service. Planning analyses and interpretations are performed by the individual utility system using its own data and evaluation criteria that at a minimum address NERC Reliability Standards. Acceptance or approval of resulting plans is based on the utility system’s own internal procedures. In some instances, results of this Local or Individual Transmission Planning may lead to joint planning efforts among two or more systems (see below). For Santee Cooper, a key

element of its transmission planning process is responding to the needs of its principal wholesale customer, Central Electric Cooperative, taking service under a grandfathered commitment. SCE&G is similarly responsive to its customers' needs in that, for many years, SCE&G has planned transmission service for its Network Customers connected directly to SCE&G's system identically to the way SCE&G plans for native load. Thus, for both Santee Cooper and SCE&G, the needs of transmission customers are an intrinsic part of their respective system's transmission construction plans.

Each transmission provider prepares a transmission expansion plan for its own area, which is developed through an open and nondiscriminatory process, to meet the needs of its native load customers as well as OATT customers (Network Service, Long-term Point-to-Point Service and Generator Interconnection Service). These local planning activities are then coupled with regional coordinated planning processes, as all transmission providers coordinate with interconnected systems by sharing and assessing these transmission expansion plans to ensure that they are simultaneously feasible and to ensure that consistent assumptions and data are used in identifying system enhancements required to meet reliability standards. All transmission providers within SERC participate in the Regional Planning Process to ensure that this coordination encompasses the entire region.

2. Planning Processes in the SERC Region

Layered on top of this local or individual transmission planning process is the coordinated reliability planning organized through SERC and the Virginia-Carolinas ("VACAR) sub-region of SERC, the purpose of which is to further augment reliability of each utility's bulk power system through coordination of the planning of neighboring bulk power systems. Member systems within SERC and VACAR utilize an approach coupling local planning activities with (a) facilitated planning, (b) regional coordinated planning, and (c) joint planning efforts among two or more parties when necessary.

a) Facilitated Planning

Facilitated Planning is an extension of individual transmission planning wherein two or more individual systems cooperate by exchanging information about their existing facilities and future plans so that each system or group can make its own independent assessment of plans and performance. Normally, system facility data and computer power flow models are included in the information exchange. Facilitated Planning is the minimum level of multi-party planning undertaken in SERC. Acceptance or approval of resulting plans is based on each system's own internal procedures. The individual systems are on their own to achieve their plans using their own resources or those they negotiate with others. In some instances, results of Facilitated Planning may lead to joint planning efforts among two or more systems.

Within SERC, Facilitated Planning is achieved through annual joint modeling efforts among the member systems. In addition, more frequent exchange of information occurs when appropriate such as during Coordinated Planning activities. Facilitated

Planning is also achieved with other systems outside of SERC through SERC's participation in the Multiregional Modeling Working Group (MMWG) efforts and through information exchanges associated with inter-regional coordinated planning activities.

To ensure Facilitated Planning is effective, each member system shares through these modeling efforts its best available estimates of future system conditions and plans. The sharing of this information for future years is intended to provide ample time for other affected systems to react, through their internal planning processes, to changes in the plans of neighboring systems that may have significant impacts.

b) Regional and Interregional Coordinated Planning

Regional Coordinated Planning is a process in which two or more individual systems agree to exchange necessary data and system plans and collectively monitor and assess conformance to a specific set of criteria and guides, such as the national and regional reliability standards associated with planning. This process inherently recognizes the potential effects of each system's plans on the other interconnected systems in matters of efficiency and reliability. Normally, the most current system facility data and future plans are exchanged and reflected in common computer power flow models which are developed cooperatively by the group and used in studies, assessments, and investigations of the overall interconnected network. Individual systems monitor and assess their individual planned systems throughout the process. Results of such assessments are taken into consideration during internal planning processes of the participating systems where specific plans addressing any identified system deficiencies are developed. In some instances, results of Regional Coordinated Planning assessments lead to joint planning efforts among two or more systems.

The end result of Regional Coordinated Planning in SERC is that each system has its own plans that meet its individual needs while also meeting the overall interconnected system goals embodied in the national and regional reliability standards. The individual systems are on their own to achieve the plans using their own resources or those they negotiate with others.

Regional and sub-regional Coordinated Planning assessments are routinely conducted in SERC to support coordinated planning activities. In addition, coordinated planning assessments are also conducted with neighboring systems outside of SERC under inter-regional studies agreements and through direct participation in planning assessments conducted in other regions.

Information associated with future system conditions and plans are shared in an open manner to ensure Coordinated Planning is effective. Recognizing that planning is a continual process, consistency in the cycle of studies and the types of assessments conducted is maintained so that the individual planning processes of the member systems will have available consistent information from one assessment to the next. In addition, planning horizons assessed are selected such that the member systems have ample time to

adjust individual systems plans to address issues identified in Regional Coordinated Planning assessments, or to engage in Joint Planning activities when necessary.

c) Joint Planning

Joint Planning is a process in which two or more systems plan as if they were a single system but do not relinquish their responsibility for planning their individual systems. This is usually done to address a specific concern with an interconnection or a congested area. The systems agree to perform studies and plan system additions based on an agreed upon set of common criteria, guides, and performance goals. Virtually all system data and plans are exchanged except for proprietary business data. The systems agree on how the resulting joint plan will be accepted, rejected or approved. The systems usually join together to implement the approved plan through a contractual mechanism that delineates the responsibilities of each system.

Joint Planning within SERC typically takes place between two or more member systems that conduct detailed assessments and utilize negotiations under two-party Interchange Agreements to agree on, commit to and implement detailed plans. However, Joint Planning activities may cross regional boundaries, as needed.

3. SERC Organization

Much of the Facilitated and Coordinated Planning activities in SERC are carried out through SERC committees (see Appendix 1). Outlines of the responsibilities of the various SERC committees through which these activities are addressed are as follows:

SERC Regional Studies Executive Committee (RSEC)

The RSEC is responsible for overseeing the SERC intra-regional studies processes and coordinating inter-regional reliability study processes.

SERC Regional Studies Steering Committee (RSSC)

The RSSC is responsible for directing the SERC intra-regional studies processes. It directs the reliability study process in the SERC region.

Intra-regional Long-Term Study Group (LTSG)

The SERC Engineering Committee (EC) Intra-regional Long-Term Study Group (LTSG) is responsible for conducting longer-term intra-regional reliability assessment studies.

Intra-regional Near-Term Study Group (NTSG)

The Intra-regional Near-Term Study Group (NTSG) is responsible for conducting near-term intra-regional seasonal reliability studies and OASIS support studies.

Intra-regional Dynamics Study Group (DSG)

The Intra-regional Dynamics Study Group (DSG) maintains SERC regional dynamics data and conducts special dynamics studies, as needed.

Short Circuit Database Working Group (SCDWG)

The Short Circuit Database Working Group (SCDWG) is responsible for maintaining the SERC regional short circuit database and exchanging system models.

III. Additional Stakeholder Participation Under Order No. 890

A. Overview

Santee Cooper and SCE&G propose to enhance the planning processes currently undertaken by individual utilities in South Carolina and through SERC and VACAR with a stakeholder process providing for information sharing and public input consistent with the expectations for open, transparent and coordinated regional planning that FERC has articulated in Order No. 890. Santee Cooper's and SCE&G's collective aim is to provide:

1. coordination of transmission needs for all customers, neighboring transmission providers, affected state authorities, and other stakeholders of the transmission systems in the region;
2. an open planning process where all stakeholders will know the criteria, rules and procedures used to plan the region's transmission systems;
3. a transparent planning process where all stakeholders can review models, assumptions and data used in the planning process and the results of the planning process;
4. information exchange between all stakeholders and the region's transmission providers where key assumptions and data that underlie transmission plans will be made available to all stakeholders;
5. that all market participants are treated on a comparable basis;
6. a dispute resolution process;
7. coordination with procedures overseen by SERC and VACAR related to planning for reliability purposes;
8. an economic planning study process to identify opportunities to enhance the grid for purposes beyond maintaining reliability or reducing current congestion;
9. a methodology for cost allocation of new projects.

B. Stakeholder Participation

Quarterly Stakeholder meetings of the South Carolina Regional Transmission Planning Stakeholders Group (SCRTP-SG) will be undertaken in order to address the Reliability Transmission Planning (RTP) process and the Economic Transmission Planning (ETP) process (see Appendix 2).

The RTP process is the transmission planning process that has traditionally been used by South Carolina Transmission Providers to provide safe and reliable transmission service at the lowest reasonable cost. The Transmission Providers will continue to conduct all studies in the RTP process. This traditional planning process is being expanded to include the additional and active participation of all stakeholders.

The ETP process will determine the facilities or system changes on the South Carolina Transmission Providers' transmission systems to increase transfer capability on any direct interface. The final results of this process will include cost and time estimates associated with providing the increased transfer capabilities. The intent of the ETP process is to provide information to stakeholders and is not a commitment to build.

The schedule for the additional stakeholder meetings, and a broad outline of the substance of these sessions and the work associated with their conduct, are as follows:

Fall Stakeholder Meeting

- The Fall Stakeholder meeting is scheduled to occur prior to initiation of the Transmission Providers' annual studies examining system performance against requirements included in NERC, SERC and individual company standards and criteria.
- Transmission Providers review latest transmission plans.
- Stakeholders provide comments on transmission plans.
- Transmission Providers review key assumptions and data used for internal model development in the RTP process.
- Stakeholders provide input on key assumptions and modeling data used in the RTP process, including but not limited to: (a) Network Customers' Network Load Forecasts and Network Resources Forecasts; and (b) Point-to-Point customers' forecasts. Information received will be subject to protection for confidentiality.
- A schedule for completion of Reliability Transmission Planning studies is established.

Winter Stakeholder Meeting

- Transmission Providers review the results of
 - individual utility RTP studies;
 - completed and published two-party and multi-party RTP studies conducted under Interchange Agreements;
 - the most recent VACAR, SERC and ERAG reliability studies.
- Transmission Providers review information on how to acquire all data used to conduct the studies. All data released will be subject to Non-disclosure and Confidentiality agreements.

Spring Stakeholder Meeting

- Stakeholders identify and suggest power transfer sensitivities to be studied;
 - All suggested sensitivities will be considered, although sensitivities that specify specific generation resources will not be considered;
- Up to 5 sensitivities will be studied per year. If more than 5 are suggested, Stakeholders will vote to select priorities.¹
- Transmission Providers review any additional power transfer sensitivities to address identified significant and recurring congestion.
- Transmission Providers review assumptions for Regional Model development.
- Stakeholders provide additional input on assumptions for Regional Model development.

Summer Stakeholder Meeting

- Transmission Providers review results of requested power transfer sensitivities, including:

¹ For each approved request, the affected Transmission Providers will conduct the studies in the ETP process (i.e., if the requested economic transfer is between SCE&G and Santee, then SCE&G and Santee will conduct the studies. If the request is between SCE&G and Duke, then SCE&G and Duke (or NC Collaborative) will conduct the study).

- Impacted facilities
 - Solution options
 - Cost and time estimates
- Transmission Providers review results of additional power transfer sensitivities to address significant and recurring congestion, including:
 - Impacted facilities
 - Solution options
 - Cost and time estimates
- Transmission Providers review information on how to acquire all data used to conduct the power transfer sensitivity studies. All data released will be subject to Non-disclosure and Confidentiality agreements.

C. Stakeholder Organization

Santee Cooper and SCE&G contemplate that stakeholder membership in the SCRTP Stakeholder Group (“SG”) will be divided into 8 sectors, as follow:

- Transmission Owners/Operators
- Transmission Service Customers
- Cooperatives
- Municipals
- Marketers
- Generation Owners/Developers
- ISO/RTO
- State Regulatory Representatives (non-voting)

Key features of the stakeholder organization are as follows:

- SCRTP-SG participants determine their sector affiliation
- Each sector within the SCRTP-SG will have two voting members (14 total voting members)
- One vote per member; majority rule
- Voting members will be determined by the sector membership annually during the Fall Meeting.
- Each Company will have only one voting member in the SCRTP-SG
- This will promote an environment where all interested parties can actively participate in the SCRTP-SG

- SCRTP-SG meetings are open to non-SCRTP-SG members
- Once formed the SCRTP-SG can modify the initial framework, if needed

IV. Order No. 890 Planning Principles

While Santee Cooper and SCE&G plan to provide further detail with respect to the plans outlined above, the contour of the program supports the conclusion that the program will be compliant with the Commission's nine planning principles. Support for this conclusion, addressing each of the principles, is as follows:

A. Coordination

As described above, the SCRTP process calls for quarterly meetings between Santee Cooper, SCE&G and their stakeholders in order to provide data, take input, and discuss the results of RTP and ETP studies. Provision is also made for coordination with North Carolina utilities - Duke Energy Corporation and Progress Energy Corporation. Through existing regional and sub-regional processes, Santee Cooper and SCE&G will continue to coordinate planning activities with all neighboring systems.

The SCRTP process provides for timely and meaningful input and participation of customers into the development of transmission plans. Customer input is incorporated into the planning process at an early stage of the development of transmission plans; that is, before the Transmission Providers' annual studies examining system performance against requirements included in NERC, SERC and individual company standards and criteria.

B. Openness

The SCRTP will promote an open transmission planning process by working through the SG. As described above, the SG includes Transmission Owners/Operators, Transmission Service Customers, Cooperatives, Municipals, Marketers, Generation Owners/Developers, ISO/RTOs and state regulatory representatives. In consultation with affected parties, SCE&G and Santee Cooper will develop mechanisms, such as confidentiality agreements and password-protected access to information, to manage confidentiality and CEII concerns.

C. Transparency

In the course of the stakeholder meetings, all basic criteria, assumptions and data underlying the transmission plans will be shared with stakeholders. In addition, Santee Cooper and SCE&G will document and make available the basic methodology, criteria, and processes used to develop their transmission plans, including how they treat retail native loads.

D. Information Exchange

Currently, network transmission customers provide load and resource projections for the planning horizon. This process will be expanded to call for similar data from firm point-to-point customers. Similar information collected by Santee Cooper and SCE&G to provide transmission service to their native load customers will also be made available.

E. Comparability

The SCRTP contemplates the development of transmission system plans that (1) meets the specific service requests of Santee Cooper and SCE&G transmission customers and (2) treats similarly-situated customers (e.g., network and retail native load) comparably in transmission system planning.

F. Dispute Resolution

Disputes that arise from procedural or substantive issues as related to Order 890 will be resolved in the following manner:

1. Resolution Procedures. Disputes shall be referred to a senior representative of Santee Cooper or SCE&G and to a senior representative(s) of the individual stakeholder(s) bringing the dispute for resolution on an informal basis as promptly as practicable. In the event the designated representatives are unable to resolve the dispute by mutual agreement within ninety (90) days from the date of receiving written notice of such dispute (or such other period as the disputing parties may agree upon), such dispute then may be submitted to nonbinding arbitration and resolved in accordance with the arbitration procedures set forth below.
2. Arbitration Procedures. Any dispute submitted to arbitration as described above in Paragraph F1 shall be processed in accordance with the Uniform Arbitration Act and, to the extent not inconsistent therewith, the Commercial Arbitration Rules of the American Arbitration Association (“AAA”), as amended and in effect on the date that demand for arbitration is filed with the AAA. The arbitration shall be conducted by a single arbitrator. Each party to the arbitration shall select an arbitrator candidate. The AAA shall then select an arbitrator from such candidates according to its reasonable judgment. The arbitrator shall issue a decision no later than ninety (90) days from the date a party to the arbitration receives written notice that a dispute was not resolved by mutual agreement, and therefore, must be submitted to arbitration. The expenses of the arbitration shall be borne equally by the parties to the arbitration, provided that each party shall pay for and bear the cost of its own experts, evidence and legal counsel.

G. Regional Participation

Each transmission provider within the Carolinas has its own internal planning process and prepares a transmission expansion plan for its own area on an open and non-discriminatory basis to meet the needs of its native load customers as well as OATT customers (Long-term Firm Point-to-Point, Network Service and Generator Interconnection Service). These internal planning processes meet Order 890's nine planning principles by inclusion of these internal processes and are enhanced by the procedures discussed in this document.

Within the VACAR and SERC sponsored processes, as discussed earlier, all participating transmission providers coordinate with interconnected systems by sharing and assessing these transmission expansion plans to ensure that they are simultaneously feasible and to ensure that consistent assumptions and data are used in identifying system enhancements required to meet reliability standards. All transmission providers within VACAR and SERC participate in these planning processes thus ensuring coordination by a large portion of the Eastern Interconnection.

These processes include jointly conducting studies of the interconnected systems to ensure the systems meet reliability standards and to measure the capabilities of the interconnected systems. When one of these studies indicates an area of concern, the affected transmission providers either address the area of concern within their respective internal conduct additional two-party or multi-party planning activities to determine any appropriate transmission improvements. These two-party multi-party planning activities are typically conducted under two-party Interchange Agreements between participating transmission providers.

The combination of these processes 1) results in a complete and thorough review of the interconnected systems in the region, and 2) ensures follow through by the affected transmission providers to identify and implement required transmission improvements.

H. Economic Planning Studies

The SCRTP process includes the Power Transfer Sensitivity study activities where up to 5 sensitivities will be studied per year, as selected by the Stakeholder group. Also, identified "significant and recurring congestion" will be studied in a similar manner.

I. Cost Allocation for New Projects

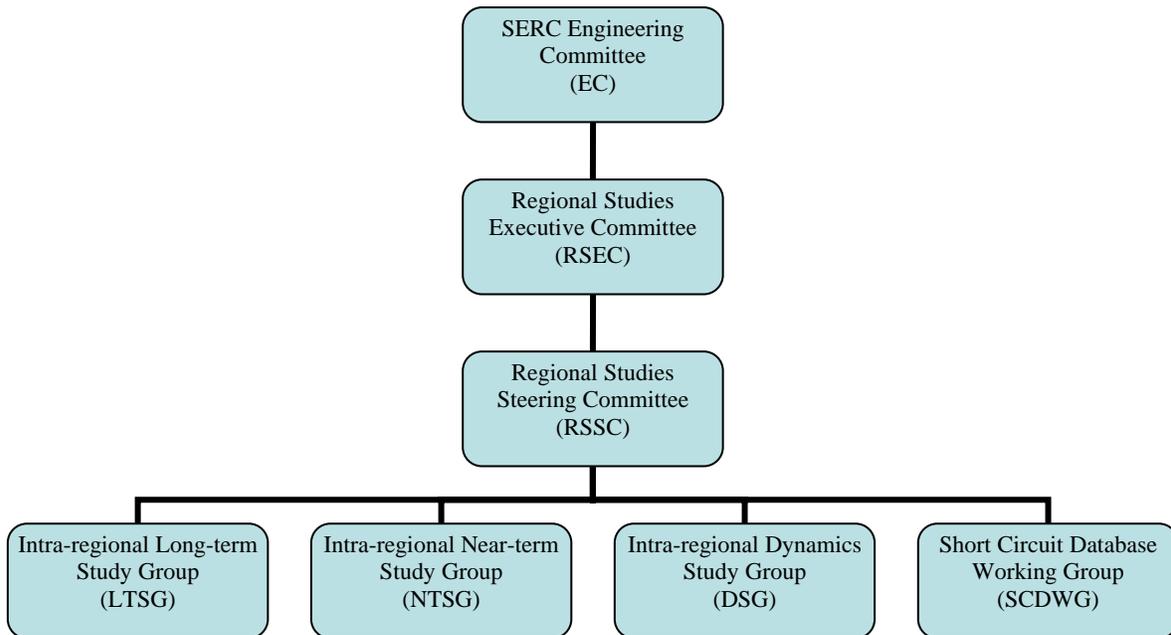
The cost allocation for new transmission facilities or portions of facilities for transmission service or generation interconnection under the OATT of a specific transmission provider shall be in accordance with FERC policy, if applicable.

With regard to reliability upgrades, the costs of such transmission improvements shall be allocated to all users of the transmission system in accordance with State and FERC policies, if applicable.

With regard to economic upgrades, the costs for such transmission improvements shall be assigned/allocated to the requestor(s) of those improvements. For example, significant interregional/multiple control area transmission improvements that allow for access to generation in distant markets would be assigned/allocated to the requestor(s).

Santee Cooper and SCE&G shall each retain decision making authority for such decisions related to reliability planning consistent with their statutory responsibilities for reliability, subject to normal regulatory oversight. The process described in this Strawman is not intended to replace or diminish the obligations of Santee Cooper or of SCE&G pursuant to their respective open access transmission tariffs to, as applicable, provide transmission service to, or undertake construction of transmission expansion projects for, any transmission customer. Transmission expansion options will remain fully subject to the current reservation and request processes conducted through the OASIS, and these processes do not replace such OASIS processes for SCE&G or for Santee Cooper.

Appendix 1 - SERC Regional Studies Committees – Organizational Chart



Appendix 2 – South Carolina Regional Transmission Planning Organization

