

IN THE MATTER OF AN APPLICATION OF)
 ENTERGY ARKANSAS, INC., MID SOUTH)
 TRANSCO, LLC, ITC MIDSOUTH LLC,)
 TRANSMISSION COMPANY ARKANSAS, LLC,)
 AND ITC HOLDINGS CORP. TO ENTER)
 TRANSACTIONS RESULTING IN A) **DOCKET NO. 12-069-U**
 CERTIFICATE OF PUBLIC CONVEIENCE)
 AND NECESSITY FOR A NEW ARKANSAS)
 UTILITY TO OWN EAI'S ELECTRIC)
 TRANSMISSION FACILITIES)

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REBUTTAL EXHIBIT LIST

Exhibit JEJ-14:	SGS Special Report – Sustained Outages (Confidential)
Exhibit JEJ-15:	SGS Special Report – Outage Duration (Confidential)

1 **Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Jon E. Jipping. My business address is 27175 Energy Way, Novi, Michigan
3 48377.

4 **Q2. ARE YOU THE SAME JON E. JIPPING WHO FILED DIRECT TESTIMONY IN**
5 **THIS DOCKET ON SEPTEMBER 11, 2012?**

6 **A.** Yes.
7

8 **Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 **A.** The purpose of my testimony is to respond to several of the comments made in the direct
10 testimony of Robert J. Latham on behalf of Arkansas Electric Energy Consumers, Inc.,
11 William B. Marcus on behalf of the Arkansas Attorney General and Daniel S. Peaco on
12 behalf of the General Staff of the Arkansas Public Service Commission.
13

14 **Q4. MR. PEACO, IN HIS TESTIMONY, PAGE 11, AND IN HIS TECHNICAL**
15 **REPORT, PAGE 2, ASSERTS THAT THE APPLICANTS HAVE NOT**
16 **PRESENTED SUFFICIENT EVIDENCE THAT ITC IS A QUALIFIED AND**
17 **CAPABLE TRANSMISSION SYSTEM OPERATOR. IS THERE EVIDENCE IN**
18 **THE RECORD THAT ESTABLISHES ITC'S CREDENTIALS IN THAT**
19 **RESPECT?**

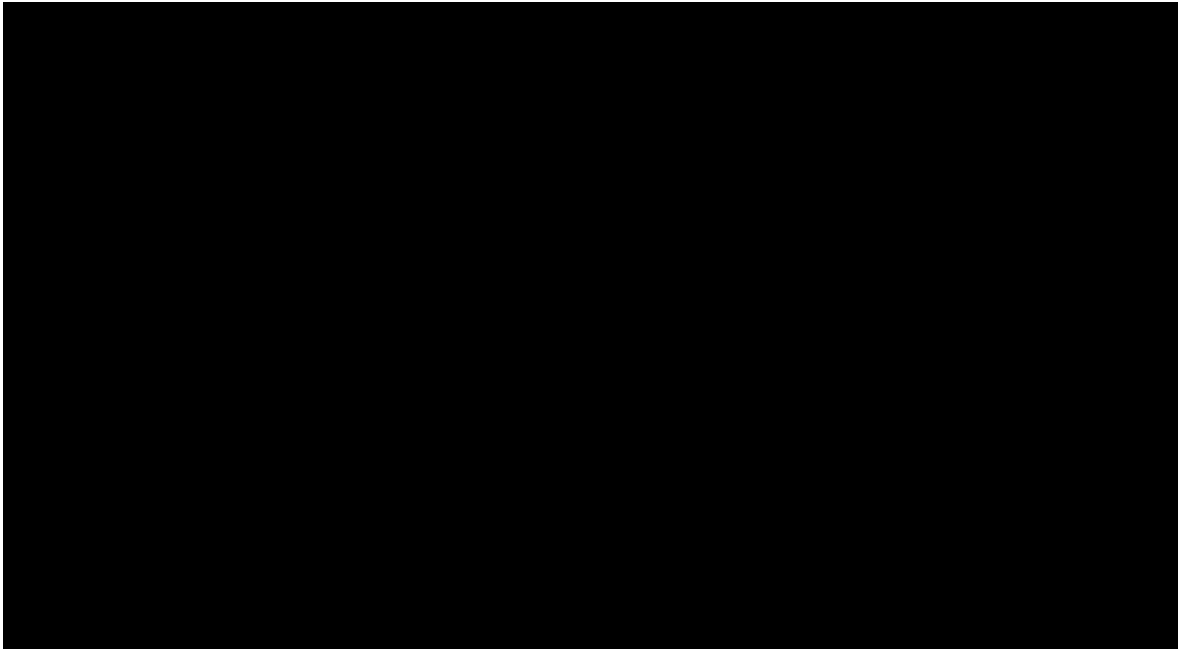
20 **A.** Certainly. ITC's performance record on key transmission system metrics is evidence that
21 ITC is indeed a qualified and capable transmission system operator.

22 ITC's singular focus on owning, operating, maintaining, constructing and
23 planning transmission systems has allowed it to surpass its peers in each of these

1 categories, demonstrated in part by the benchmarking studies we have put forth in my
2 direct testimony. Superior transmission system availability requires the dedication and
3 expertise of a superior transmission owner and operator like ITC to bring those benefits
4 to fruition.

5 My direct testimony talked about reliability benchmarking with SGS; it bears
6 repeating that we now have access to 2012 performance data. Although it is compelling
7 that ITC's mature systems (ITCT and METC) consistently rank in the upper echelons of
8 system metrics like number of sustained outages and outage duration, it is also
9 compelling to note where the Entergy system currently ranks in the same benchmarking
10 survey. Below is a chart depicting sustained outage performance for 2012¹ (**HPSI**). The
11 vertical axis represents the average number of sustained outages per circuit, and the
12 horizontal axis shows each of the participants in the SGS Study. The ITC and Entergy
13 operating companies are shown in dark blue, as are their holding companies. Other study
14 participants are shown in light gray and anonymously identified by a single letter.

¹ The 2012 data is from a special report prepared by SGS which cross-identified the ITC and Entergy companies. The relevant page from that SGS report is provided as Exhibit JEJ-14 and is Highly Sensitive Protected Material (HSPM).



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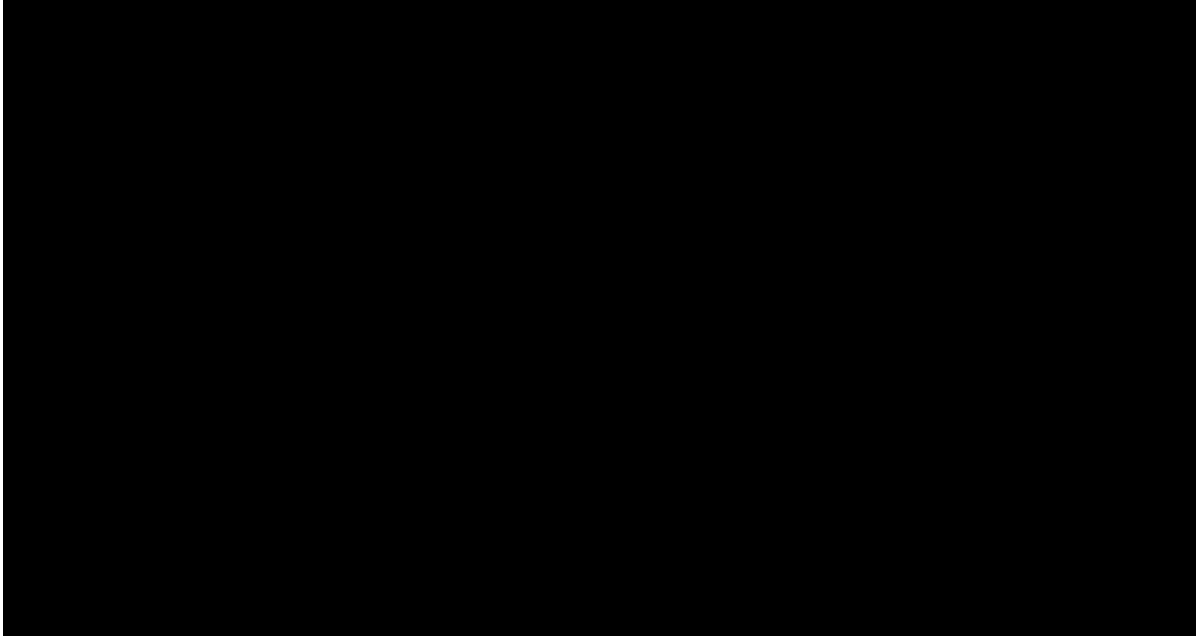
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On a relative basis, all of ITC's operating companies perform more reliably than any of Entergy's operating companies. The same conclusion is drawn from 2012 data for Outage Duration² (**HPSI**). This vertical axis on this chart represents average circuit outage duration, in minutes.

² The relevant SGS report page for this chart is provided as Exhibit JEJ-15 and is also HSPI.



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Transmission system reliability and system availability are hallmarks of ITC's operational philosophy. The two Michigan operating companies have achieved top quartile/top decile performance in many performance categories. After having ownership and operational control of the systems for over five years, our strategy now is maintaining that level of performance. For our newest operating company, ITCMW, we inherited a sizeable opportunity for improvement in reliability, and we have consistently delivered. The number of outages has fluctuated based on the severity of weather patterns in the Midwest, but a clear trend of improvement at ITCMW has been shown in all measures.

Q5. MR. PEACO, IN HIS TESTIMONY AT PAGE 10 AND IN HIS TECHNICAL REPORT, PAGE 2, CONCLUDES THAT THE TRANSACTION WILL NOT

**YIELD MATERIAL BENEFITS BEYOND THOSE THAT WILL ACCRUE
FROM RTO MEMBERSHIP. HOW DO YOU RESPOND TO THIS ASSERTION?**

A. This assertion is not correct.

MISO is not a transmission operator. Moving to MISO (i.e., transfer of functional control), does not make a transmission system owner any more effective at performing its required duties. Neither does granting functional control of the transmission assets to MISO make a transmission operator more effective at transmission system operation, maintenance or planning. It is still the responsibility of the transmission owner to have in place robust and effective maintenance practices, procurement strategies, and planning protocols with which to maximize transmission system performance. It is the transmission owner that creates and executes the maintenance, expansion and day-to-day operating plans for the transmission system. Thus, the transmission owner plays a critical role for system reliability, even within the MISO RTO.

As I noted in my direct testimony, increased reliability pays dividends for customers. Transmission system availability is not something that can be assured simply because EAI has transferred functional control of its transmission assets to MISO. The dedication and expertise of a superior transmission owner and operator, like ITC, is required to bring those benefits to fruition. Moreover, ITC has significant experience with integrating its best operating practices into newly acquired transmission assets. My direct testimony speaks to this point. The integration process I discuss in my direct testimony explains how ITC will bring its best practices to the Entergy footprint.

1 **Q6. HAS THE INTEGRATION PROCESS REVEALED SPECIFIC EXAMPLES OF**
2 **WHERE ITC’S SINGULAR FOCUS WILL BRING BENEFITS TO ENTERGY**
3 **BEYOND THOSE AFFORDED BY THE MOVE TO MISO?**

4 A. Yes, it has. Through the integration process that is currently in progress, ITC is learning
5 about Entergy’s maintenance practices and is comparing them to ITC’s approach. ITC’s
6 general understanding of Entergy’s maintenance practices is that they are focused on
7 completion of “high priority” maintenance tasks, especially those required by the
8 mandatory reliability standards. This focus is understandable considering Entergy’s
9 resources available to focus on transmission system maintenance. Further ITC
10 understands that there are backlogged maintenance tasks that have been created as a
11 result of this prioritization. This risk has manifested itself in lower system performance
12 from an outage perspective. ITC believes that further focus on the lower priority tasks
13 will result in better system performance, as evidenced by the performance of the ITC
14 OpCos. This is a benefit that will not be realized simply by allowing Entergy to transfer
15 functional control to MISO.

16 Another example is ITC’s centralized planned outage scheduling. ITC’s
17 operations organization includes a centralized group to coordinate scheduling of planned
18 outages for both maintenance and capital construction projects. This increases efficiency
19 by leveraging available outage windows for multiple purposes and facilitates better
20 coordination of equipment shutdowns with load serving entities and industrial customers.
21 This is a practice not performed by the Entergy operating companies, and is indicative of
22 the types of operational best practices ITC will bring to the Entergy region. In addition,
23 as Entergy witness Richard Riley notes in his testimony, “a more robust transmission

1 system with fewer unexpected events provides greater operational flexibility, which
2 allows both generation owners and transmission owners to take outages at the optimal
3 time.” ITC’s expertise in managing both operations and planning of the transmission
4 system will cause the system to be planned in such a way that operational flexibility will
5 increase, thereby providing direct benefit to customers by virtue of optimal outage
6 planning and, by extension, a reduction in overall system congestion.

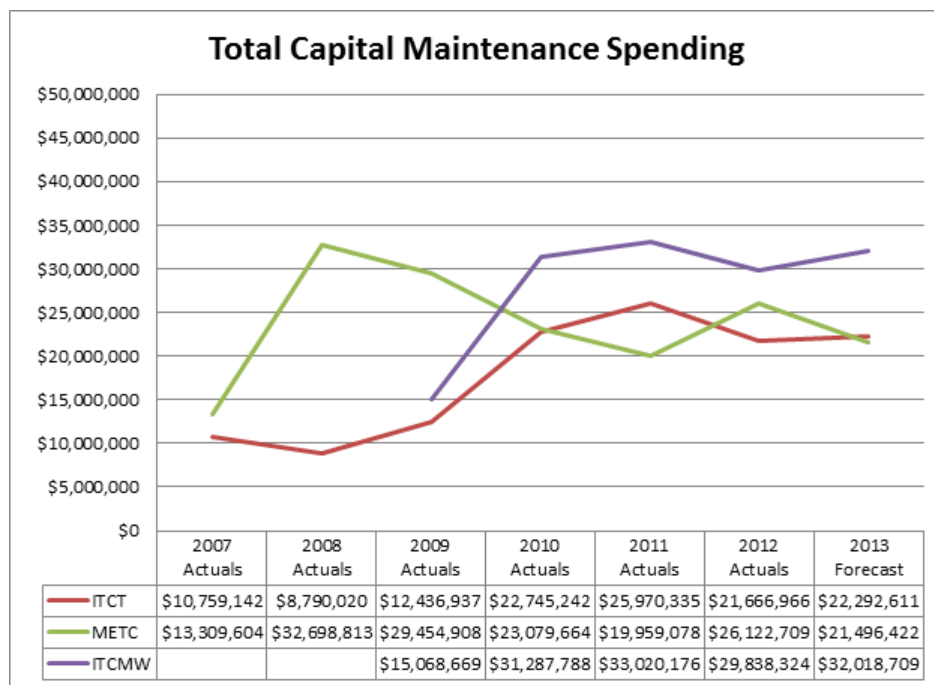
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8 **Q7. PLEASE EXPLAIN ITC’S MAINTENANCE STRATEGY AND WHETHER**
9 **ITC’S SPENDING PLANS WILL BE COST EFFECTIVE.**

10 **A.** Yes, they will. ITC invests capital into its system to improve overall system reliability,
11 reduce congestion on the system, and to provide greater access to energy markets. With
12 Entergy joining an RTO to bring energy market value to its customers, a highly reliable
13 system is necessary to deliver those market values to customers. ITC witness Thomas
14 Vitez explained in his direct testimony how those projects are conceived and ultimately
15 funded. Market benefits themselves are inherently cost effective. I have previously
16 testified about how system reliability impacts cost effectiveness by virtue of the avoided
17 cost of transmission system outages.

18
19 **Q8. HOW IS CAPITAL MAINTENANCE SPENDING DEPLOYED AT ITC TO**
20 **REDUCE OVERALL SYSTEM COSTS?**

21 **A.** System reliability impacts cost effectiveness by virtue of the avoided cost of transmission
22 system outages. ITC invests in cost effective capital expenditures to maintain the system
23 in order to keep the system reliability high, and thus able to impart this specific value to

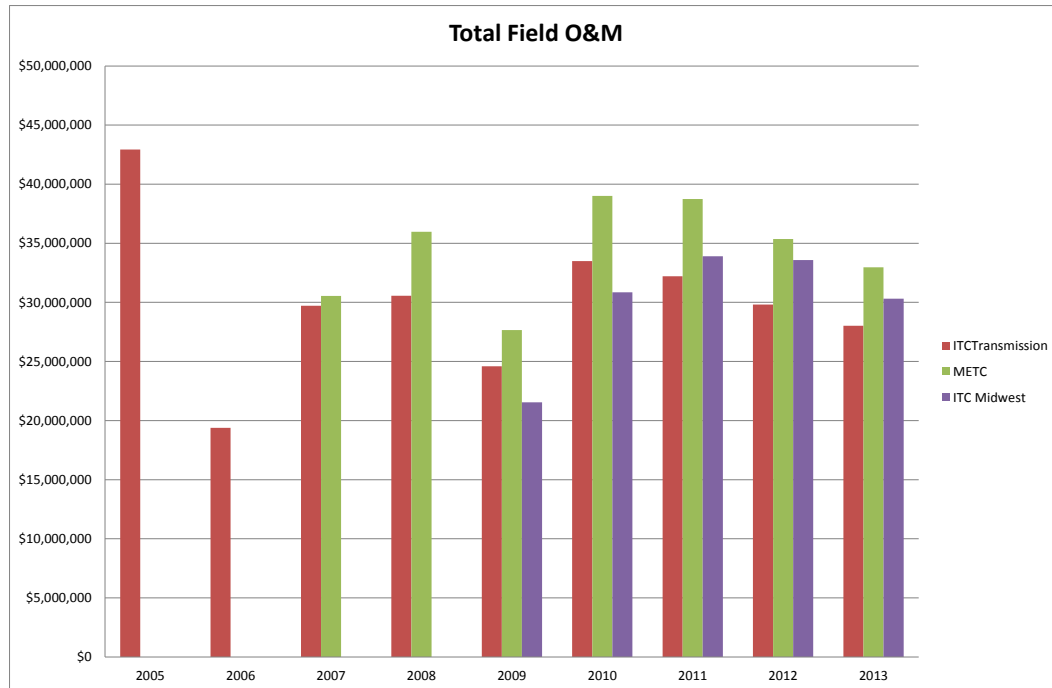
customers. For a system like ITC *Transmission*, capital spending trends are indicative of a predictable amount of spending to ensure continued reliability and system performance. Similarly, METC has had fluctuations year-over-year meeting system needs, but the overall trend is a stable pattern. ITC Midwest has required additional capital investment to bring the system to a level of performance that should be expected from a transmission system. The following graphic depicts total capital maintenance spending at three of the ITC Operating Companies. (ITC Great Plains is not depicted, since its system costs are not analogous to those experienced at the other three transmission systems we operate in MISO.)



Q9. DO SIMILAR TRENDS HOLD TRUE FOR O&M EXPENSES?

A. Yes, similar trends hold true for Field O&M expense, the non-capital portion of maintenance on the system. Consider the following composite trend of the same three

1 ITC systems from the time we assumed operational control of the transmission assets up
2 to the current year projections:



3
4 Here we see the same stable trend in O&M spending as we did in capital maintenance
5 spending. Note also that my direct testimony showed O&M expense data as it relates to
6 the size of the overall system by calculating an O&M cost per mile. Using that data I
7 showed that ITC's O&M costs are reasonable for the systems we operate, especially as
8 compared to several of our peers.

9
10 **Q10. IS ITC'S MAINTENANCE SPENDING COST-EFFECTIVE?**

11 A. Yes, it is. With respect to cost-effectiveness, ITC's total capital maintenance budget
12 for 2013 is approximately \$76M. Entergy's total capital maintenance budget for
13 2013, for a similarly-sized system, is \$93M. This supports a conclusion that ITC's
14 focus on reliability and its maintenance practices are effective to achieve top-tier

1 reliability at a reasonable cost. Any assertion that ITC will invest in projects and
2 maintenance programs that are not cost effective is simply unfounded. Because of the
3 benefits received from an increasingly reliable system, our continual effort to reduce
4 cost for our customers and our open and transparent planning process, our
5 transmission costs are both cost-justified and significantly beneficial to our
6 customers.

7
8 **Q11. DOES ITC SPEND MONEY ON MAINTENANCE THAT IS NOT JUSTIFIED,**
9 **AND THEREFORE EXCESSIVE?**

10 **A.** No. ITC performs maintenance activities to maintain the high standards of reliability
11 expected by transmission customers, but the costs of doing so are not excessive.

12 High standards are important because transmission systems, for the most part,
13 have the capability to operate with high reliability. Typical system designs, and even the
14 transmission equipment that is used, have years and years of practical operational
15 experience behind them. Optimization, performance standards, and quality materials and
16 manufacturing processes have been built in. Hence, a system that is operating at a
17 substantially lower level than others is not properly cared for.

18 There may be a misconception that having high standards or striving for superior
19 system performance “isn’t worth it,” or that achieving higher system performance means
20 huge expenditures beyond the point of diminishing returns. To the contrary, properly
21 maintaining transmission system equipment is far less expensive than performing
22 corrective actions on a deteriorating system or replacing components that were never
23 maintained to begin with. Once the decision to install equipment is made, it is incumbent

1 on the transmission owner to maintain that equipment in a fashion to ensure its continued
2 reliable performance.

3 Striving for overall performance that the transmission system is capable of
4 delivering is not just reasonable, it should be expected. Transmission system elements
5 like lines and breakers are not inexpensive on a unit by unit basis; one should expect that
6 they are properly cared for to deliver the reliability for which they are capable of and
7 designed. Over the long term, many of the transmission system elements will be replaced
8 or repaired in order to keep the system operating. Instead of waiting for equipment to
9 fail, malfunction or, worse, create a safety hazard, proactive deliberate actions based on
10 sound technical judgment are employed to maintain the system in working order. Lower
11 relative performance means either waiting to repair system equipment when it fails, or
12 knowing that equipment is prone to malfunction or failure and doing nothing to prevent
13 the failure and corresponding system outage, and neither of those choices are in the
14 public interest. “Acceptable” system performance may just be a system failure waiting to
15 happen. “Superior” performance is more adequately bolstered against unexpected
16 operating conditions, and can more properly perform the function for which it was
17 intended.

18 Performing the work necessary to achieve these performance goals should not be
19 considered excessive, but rather a necessary cost of operating a robust transmission grid.
20 ITC performs this necessary work at a cost that is on par with similarly sized
21 transmission systems with similar characteristics.

■ Q12. [REDACTED]

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23 [REDACTED]

1 **Q15. MR. MARCUS, IN HIS TESTIMONY, PAGES 44-45, AND MR. PEACO IN HIS**
2 **TECHINICAL REPORT, PAGES 38-39, QUOTE FROM AN ENTERGY**
3 **PRESENTATION TO ITS BOARD OF DIRECTORS IN DECEMBER 2011**
4 **(SHOULD BE 2010) EXPRESSING CONCERNS OVER ITC'S OPERATION OF**
5 **ITS TRANSMISSION SYSTEMS. ARE THOSE CONCERNS JUSTIFIED?**

6 **A.** No. Entergy's further due diligence demonstrated that its initial concerns were factually
7 unwarranted or were a matter of misunderstanding how ITC applied various policies. All
8 such concerns have been resolved as acknowledged by Entergy's Richard Riley. See
9 Rebuttal Testimony of Richard Riley, p. 24-25.

10
11 **Q16. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes.
13

EXHIBIT JEJ-14

Draft 2013 SGS Transmission Reliability Benchmarking Study, page 90

Average Circuit SUSTAINED Outages (Automatic)—ITC Holdings Corp.

**This exhibit contains information that is confidential and will be provided under the terms
of the Protective Order entered in this case.**

EXHIBIT JEJ-15

Draft 2013 SGS Transmission Reliability Benchmarking Study, page 98

Average Circuit SUSTAINED Outages (Automatic)—ITC Holdings Corp.

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