

ITC Midwest has reviewed the proposed draft UMTDI Cost Allocation Principles, and has included its comments in the following red-lined version. In general, ITC Midwest supports the principles as they have been laid out, and looks forward to working with the Cost Allocation Work Group to finalize these principles. To that end, we suggest that the first three principles be revised and consolidated as proposed in the red-line, below, and other comments be incorporated as noted.

DRAFT COST ALLOCATION PRINCIPLES

Upper Midwest Transmission Development Initiative (UMTDI)
Principles Study Group of the Cost Allocation Work Group

Revised Principle 1: A sound, iterative, open and transparent planning process overseen by an RTO should identify transmission projects needed within its geographical area, or confirm the need for projects identified by its transmission owners. Projects should be developed with the knowledge that with the passage of time, there is no distinction between transmission needed for reliability and transmission developed for economic purposes. Furthermore, projects must be justified using a full complement of available metrics, and with consideration of all potential benefits over the project's lifetime.

Revised Principle 2: Robust projects that exhibit benefits under a wide range of scenarios for the future should be preferred over projects with less certain benefits or with limited application in future scenarios. In conjunction with Principle 1, it should be recognized that the actual benefits and beneficiaries over a project's long lifetime will remain uncertain. To mitigate risk, robust alternatives with a high level of benefits should be preferred over less beneficial projects. Cost is an important consideration, but must be evaluated in the context of the overall goals of the transmission development initiatives so as not to preclude the development of more costly alternatives that provide additional benefits in favor of less costly local alternatives.

Revised Principle 3: Cost allocation should reflect the fact that benefits may accrue to parties beyond the initially identified cost causers and beneficiaries, and that it is not possible to identify all beneficiaries over a project's lifetime with precision at the time the project is planned. Principle 1 In order to properly allocate the costs of a transmission project, the following questions must be answered through an open, transparent planning process:

- What is the project's purpose or need?
- Which stakeholders will directly benefit from the project?
- Which stakeholders will indirectly benefit from the project due to proximity to the project or other factors?

Principle 2 Allocating costs of new electric network transmission for delivery of renewable energy resources requires a sound iterative planning process conducted by both the RTO and the affected transmission owners. This process ideally identifies all who cause and benefit from the associated new transmission construction and operation as well as the degree of their causation and benefit.

Principle 3 As a general rule, cost causers and beneficiaries should pay for the new electric network transmission needed for delivery of renewable energy resources. Determination of beneficiaries should consider more than one single metric. Determination of beneficiaries should consider future as well as current needs or uses and should assume that with the passage of time there is no distinction between transmission used for reliability and economic purposes.

Principle 4 No transmission owner's customers should disproportionately bear the cost of new electric network transmission needed in their local area for delivery of renewable energy resources to other areas. As such, UMTDI cost allocation proposals shall not be designed to create incentives to leave the Midwest ISO. In applying this principle, both costs and benefits need to be considered.

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Principle 5 ~~For appropriate cost allocation, sound transmission planning for regional-level projects should also consider should be done on a regional level, but also include impacts on sub-regional and as well as~~ inter-regional impacts. Transmission planning should include all relevant existing and forecast demand loads or demand and energy use reduction programs as well as those existing and anticipated supply resources located within the regional level. Transmission planning must factor in the most current topology of the network, proposed projects included in the MTEP process, and any anticipated reliability upgrades of the transmission owners.

Principle 6 UMTDI cost allocation must positively interact with transmission planning and policies adopted by the Federal government.

Principle 7 For AC lines, ~~the higher the voltages and the longer the transmission lines increase, the greater the likelihood that a broader region will benefit by from the project; hence, cost allocation for AC lines and should spread the cost of the investment over a broad constituency of beneficiaries. hence pay for the improvement.~~

Principle 8 For DC lines, beneficiaries (direct and indirect) should be identified at or surrounding the location of the AC-DC inlet to the line and the DC-AC outlet from the line as well as any other DC-AC conversion points along the line.

Principle 9 Merchant transmission investment in projects that are contained in an approved RTO plan should be permitted unless such investment directly conflicts with any State's laws. ~~Unless direct or indirect benefits and/or beneficiaries are identified to which costs may be allocated, merchant project proponents should bear the costs of the project as well as any costs incurred to ensure that the overall network is not adversely affected. Individual state regulatory authorities must be satisfied by the appropriate legal arrangements that operation and maintenance of such facilities will follow proper engineering practice and that safety and reliability concerns meet all federal and state standards.~~

Principle 10 To the extent that benefits are expected to accrue to users outside the five-state electrons are exported from the 5 state region, proportional costs should also be exported borne by users outside the five-state region.

Principle 11 UMTDI favors transmission planning and cost allocation that is informed by clearly defined public policy goals and economic efficiency considerations.

Principle 12 Cost allocations should allow a reasonable opportunity provide for recovery of prudently-incurred costs.