



CapX2020 Comments on Cost Allocation

Submitted to the

Upper Midwest Transmission Development Initiative (UMTDI)

Cost Allocation Work Group

18 March 2009

Introductory Remarks on Cost Allocation

CapX2020¹ submits these comments with the goal of protecting the interests and rates of customers which the CapX2020 organizations serve. The CapX2020 consortium is focused on protecting customers, engaging stakeholders, investing in infrastructure, working cooperatively, supporting regional policy, and complying with regional regulatory processes. The CapX2020 utilities have come together with a common purpose to serve customers in a reliable, economical, and environmentally responsible manner with a focus and commitment to provide reliable transmission service at reasonable rates. The utilities have a long history of reliably meeting customer needs in the Midwest, and working with stakeholders to develop a broad, comprehensive integrated expansion plan that meets the region's transmission needs.

CapX2020 supports the development of a defined set of transmission facilities that meet the needs of the five UMTDI states. These comments are based on the concept that UMTDI defined transmission will be developed for the needs of the five state UMTDI region and that benefits and costs of the transmission needed for the five states will accrue to the five states. If facilities are proposed within the UMTDI footprint to meet the needs of regions outside of the UMTDI footprint, these comments and recommendations are no longer valid.

In the context of cost allocation recommendations for UMTDI, it is important to identify which transmission facilities are included and which are excluded from any proposed cost allocation method.

The CapX2020 recommendations on cost allocation are conditioned on the following basic premises:

- The cost of the UMTDI transmission facilities should first be allocated to parties outside the five states pursuant to the Midwest ISO's Tariff, as applicable. Under the current RECB cost allocation, if the Midwest ISO's analysis allocates a portion of costs via the 20% postage stamp and/or 80% LODF to areas outside of the five states, this allocation should continue. UMTDI cost allocation would apply only to that portion of the UMTDI transmission facility costs which are not allocated outside of the five states. This portion allocated to the five states would be allocated a high percent postage stamp across the five states.

¹ The CapX2020 organizations are Central Minnesota Municipal Power Agency, Dairyland Power Cooperative, Great River Energy, Minnesota Power, Missouri River Energy Services, Otter Tail Power Company, Rochester Public Utilities, Southern Minnesota Municipal Power Agency, WPPI Energy and Xcel Energy.

- UMTDI cost allocation applies only to new transmission facilities identified as necessary to meet the energy requirements of customers located within the five state area. As such, the UMTDI cost allocation method applied shall be a one-time solution for a specific set of new, regional transmission facilities that directly benefit and support the UMTDI region. Cost allocation for future facilities beyond those recommended in this initiative shall be evaluated at a future time.
- Any solution that is reached on cost allocation for UMTDI must apply to both MISO and non-MISO members. The solution must be one that can be implemented by and applied to both groups.

Recommendations on Cost Allocation

- No changes should be made in cost allocation for the existing transmission system. Projects that have already been identified and approved in the Midwest ISO's MTEP as a project under RECB 1 or RECB 2 should continue with those assignments.
- We cannot wait for a definitive transmission plan to be absolutely finalized before cost allocation can be resolved for the five state region. At the other extreme, cost allocation evaluation cannot be a hypothetical exercise on unknown facilities but must consider a likely set of facilities. We recommend that selected MISO RGOS scenarios and the associated transmission required for these scenarios be used as indicative plans in assessing cost allocation. Cost allocation solutions can be tested on these scenarios.
- A comprehensive analysis to determine the costs of upgrading facilities or adding underlying facilities as a result of the new regional UMTDI transmission facilities should be included in the analysis. In addition, the assessment should include a determination of how those facilities' costs will be allocated.
- Assign a high percentage of UMTDI postage stamp allocation for UMTDI backbone facilities. This allocates the cost responsibility to the five state region, as the region is the primary beneficiary.
- UMTDI customers should not pay twice; first through this cost allocation mechanism for the UMTDI facilities needed for the five state needs, and again for additional facilities that are not required for UMTDI's needs. This could occur if a federal mandate and collection mechanism were put into place after the UMTDI facilities are built.
- Utility transmission investments made by an individual utility specifically for the purpose of meeting its own renewable mandate obligation should be recognized in any UMTDI cost allocation methodology.

- The principles as outlined in the 2007 WIRES Blue Ribbon Panel on Cost Allocation Report may provide a reasonable starting point for defining UMTDI cost allocation principles.²

Generation Interconnection

CapX2020 believes the current LODF allocation associated with network upgrades for the Generation Interconnection process produces the undesirable outcome of allocating costs to customers in pricing zones for network transmission projects that create capacity far in excess of what is required to meet local load serving needs.

We generally support MISO's FLIP process moving ahead quickly. In FLIP, both queue processing and cost allocation will need to be resolved to allow stakeholders to gain comfort that the entire package is workable and fair. If the cost allocation portion of FLIP is handled within the reinitiated RECB Task Force, this must be completed quickly and not be delayed or sidetracked by other issues in RECB 3.

CapX2020 as a Model

CapX2020 is successfully permitting one of the largest multi-state transmission grid upgrades in the country. Seven hundred miles of new CapX2020 high voltage transmission lines in the Upper Midwest will provide customers with continued reliable service at reasonable rates and will allow increased generation outlet for renewable energy. By actively engaging the public and local and state officials, and by continually communicating the need for transmission expansion, the CapX2020 utilities are on schedule to have these lines in service between 2012 and 2015.

The collaborative CapX2020 group was formed to study, develop, permit and construct the transmission infrastructure needed to implement long-term and cost-effective solutions for the overall electric transmission system. The consortium recognized years ago that additional transmission is needed as a result of increased demand for energy, and to support renewable energy in the Upper Midwest. Rather than addressing transmission issues under a piecemeal approach, CapX2020 determined that a comprehensive, collaborative approach to transmission planning would be more appropriate.

CapX2020 has worked to develop an integrated regional transmission plan that will meet the region's diverse needs. The initial projects that resulted from this comprehensive planning effort have been integrated into the Midwest ISO's MTEP process as well as the MAPP planning process. The CapX2020 model is proving successful in developing new transmission for the Upper Midwest.

² Some of the CapX2020 participants do not endorse all of the WIRES principles, but all believe these principles can be a starting point for discussion. UMTDI stakeholders will need a common understanding and agreement on what each principle means if it were to become a UMTDI Cost Allocation Principle. A common understanding early will avoid confusion later.