

Upper Midwest Transmission Development Initiative

Cost Allocation Work Group

Initial Questions

1/30/09

- 1) Does the cost allocation process to be developed here operate as either RECB1 or RECB2 or a subset thereof, as appropriate, and rely on the fact that 20 percent would be postage stamped to the rest of MISO's footprint? Or, should the UMTDI states adopt a separate cost allocation outside of the RECB approach. Or, should the Cost Allocation Workgroup examine scenarios under consideration by the UMTDI Planning Workgroup and allow the circumstances of the scenarios, along with adopted cost allocation principles, to guide the formation of cost allocation methods that would facilitate the actual construction of feasible projects? **Survey Study Group**
- 2) If the RECB1 or RECB2 approach is adopted, what cost allocation principles should be used for the 80% of costs to be borne by the UMTDI states? Should the circumstances of the recommended Planning scenarios, along with cost allocation principles, be used to guide in answering these questions? **Benefits Measurement Study Group/Survey Study Group**
- 3) For the costs to be allocated to the UMTDI states, and in line with adopted cost allocation principles, what specific metrics should be used? Examples include license plate with LODF or other, postage stamping, injections and withdrawal charges, partial project ownership, or completely new approaches. Should UMTDI-recommended cost allocation methods be recommended or offered, in whole or in part, to the remaining MISO States and their OMS representatives to consider for adoption by all of the States served by MISO? To what extent, if any, should generation be allocated costs? **Benefits Measurement Study Group**
- 4) If a beneficiaries-pay cost allocation principle is adopted, what types of benefits should be considered and how should they be quantified? **Benefits Measurement Study Group**
- 5) Should projects be examined on a case-by-case basis, or should a portfolio approach (e.g. SPP) be used when determining cost allocation, or should both be examined to determine which could be optimal under certain circumstances? **Survey Study Group**

- 6) What does CAPX2020 offer as a model for cost containment? For example, what advantages or disadvantages are posed when a group of transmission owners propose a project? Should other vehicles for project cost containment be entertained, for example, studying a sliding scale rate of return on a project where the rate of return on equity is impacted by the actual project cost and timeline versus its budgeted cost and timeline?

Survey Study Group

- 7) Should developing 2-3 stylized tariffs or proposed cost allocation methods wait until projects have been identified and accepted in the planning WG or can cost allocation methods be determined without looking at the costs or circumstances of specific projects or a range of projects? In other words, can “one size fits all” cost allocation methods facilitate the construction of projects in today’s economic climate? **Survey Study Group**
- 8) Should cost allocation for UMTDI investments be subject to periodic review to determine whether beneficiaries from the investment have changed in any major way that change cost responsibility and appropriate pricing?

Benefits Measurement Study Group

- 9) Are there any legal hurdles to adopting a regional approach to transmission planning? If so, what laws in what States should be considered for change?

Legal Framework Study Group

- 10) How do the answers to these questions change if the goal becomes to export renewable resources beyond the UMTDI states? **Principles Study Group**
- 11) To what extent should TOs be willing to forgo requesting ROE incentives from FERC if UMTDI success increases certainty of cost recovery or reduces other uncertainties? **Survey Study Group**

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Study Groups and Timeline

1/30/09

Proposed Study Groups

Principles Study Group – develop cost allocation principles as primary deliverable for the Work Group by Spring '09

Benefits Measurement Study Group – develop appropriate metrics for assessing benefits of transmission investment that support renewable energy

Survey Study Group – review existing cost allocation concepts and practices and broadly assess their applicability to the UMTDI states. The Survey Study Group's cost allocation review should collaborate, to the extent possible, with the current OMS cost allocation review process

Legal Framework Study Group – state, regional, and federal legal analysis to assess legal and statutory barriers and needs relevant to a UMTDI cost sharing agreement

Proposed Timeline

February 2009 – UMTDI staff draft cost allocation principles and distribute to stakeholders for comment. Stakeholders feedback received and reviewed by Principles Study Group. 3 remaining Study Groups begin analysis based upon assignments made by UMTDI staff leaders of Study Groups, and using the initial staff draft cost allocation principles as a marker for the final principles.

March 2009 – Principles Study Group delivers set of draft cost allocation principles to UMTDI Executive Committee. Survey Study Group provides UMTDI Executive Committee with analysis of draft cost allocation principles' general compliance with current RECB structure. If ready and appropriate, Benefits Measurement Study Group provides a similar analysis of the draft cost allocation principles' conformity with

generally accepted measurements of benefits. Legal Framework Study Group continues work.

April 2009 – Refinement and adoption of cost allocation principles by UMTDI Executive Committee. Product forwarded to Governors. Survey Study Group continues to review cost allocation principles to see if RECB is appropriate methodology for projects that comply with the forwarded cost allocation principles. Possible full meeting of Cost Allocation Work Group.

May 2009 – Legal Framework Study Group presents findings to UMTDI Executive Committee. Benefits Measurement Study Group presents analysis to UMTDI Executive Committee of possible range of metrics. Possible full meeting of Cost Allocation Work Group to assign tariff drafting responsibility and to assess progress of Transmission Planning Work Group.

June 2009 – Progress meeting of Cost Allocation Work Group.

July 2009 – Draft stylized tariffs/proposed cost allocation methods to Executive Committee for consideration.

August 2009 – Progress meeting of Cost Allocation Work Group. Identify cost allocation impact of each scenario adopted by the Transmission Planning Work Group as well as impact of each scenario on each state under draft tariffs.

September 2009 – Modify stylized tariffs/cost allocation methods as appropriate based upon status of final candidate projects.

October 2009 – UMTDI Executive Committee reports 2-3 stylized tariffs/cost allocation methods and related information to Governors.