

Upper Midwest Transmission Development Initiative

B. UMTDI Cost Allocation Work Group—Chairperson Eric Callisto, Wisconsin.

Cost Allocation Background:

FERC approved the MISO tariffs, RECB1 and RECB2, allowing cost sharing. To facilitate relevant RPS requirements, begin with examining existing RECB two-tiered structure to see if it should be retained, modified or replaced to facilitate the UMTDI goal of facilitating the development and delivery of renewable generation resources in the five States in order to enable each of the States to fulfill whatever Renewable Energy or Portfolio Standards are established for the State.

WG Deliverables:

a) Develop cost allocation principles—Spring 2009.

Cost allocation principle examples may or may not include:

- a. generally the causer of the cost or beneficiary of a project is responsible for paying the cost,
- b. requirements of a State that benefit only that State are the cost responsibility of that State,
- c. because of the integrated nature of the existing transmission grid, all states along (an AC) transmission line benefit from the line in added reliability as well as interconnection/outlet capacity,
- d. generation owners as well as generation users benefit from projects,
- e. because DC transmission does not integrate into the overall transmission system, the “source” and “sink” entities should bear the cost responsibilities for such DC projects.

b) Propose 2-3 stylized MISO tariffs or proposed cost allocation methods for suggestion to the Governors—Fall 2009.

Important Issue Questions:

- 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?

- 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?
- 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?
- 4) If a beneficiaries-pay cost allocation principle is adopted, what types of benefits should be considered and how should they be quantified?
- 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?
- 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?
- 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?
- 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?

- 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?
- 10) How do the answers to these questions change if the goal becomes to export renewable resources beyond the UMTDI states?
- 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?

Timeline:

January 2009--WG initial meeting, St. Paul, Minnesota PUC.

Refine scope, work product, and issues list. Assign tasks to UMTDI stakeholders or to UMTDI Staff, including gathering input on list of possible draft cost allocation principals for consideration.

February 2009—Progress Meeting--Complete the gathering of stakeholder input on list of possible cost allocation draft principals for consideration. Begin defining/condensing draft cost allocation principals list. Preliminary stakeholder assignments made to begin reviewing present RECB cost allocation methods for compliance with draft cost allocation principals.

Preliminary RGOS study results issued on or about February 2, 2009, per MISO statements at December 18, 2008 RGOS stakeholder meeting.

March 2009—Deliver defined set of draft Cost Allocation Principles presented to UMTDI Executive Committee. Stakeholders offer (1) preliminary findings of RECB compliance with draft cost allocation principles, (2) preliminary identification of modifications required for RECB to achieve compliance with draft cost allocation principles, or (3) preliminary identification of RECB's noncompliance with draft cost allocation principles such that replacement cost allocation methods should be considered. UMTDI Staff takes Stakeholder inputs under advisement and prepares briefings for UMTDI Executive Committee as requested.

April 2009—Refinement and Adoption of Cost Allocation Principles by UMTDI Executive Committee. Product forwarded to Governors. Work continues in defining RECB compliance with cost allocation principals, defining any RECB

modifications required to comply with cost allocation principals or determining that RECB cannot comply with cost allocation principals and replacement cost allocation methods should be considered.

May 2009—Progress Meeting to Develop Stylized Tariffs/proposed cost allocation methods. Make work assignments as needed.

June 2009—Progress Meeting.

July 2009—Draft stylized tariffs/proposed cost allocation methods to Executive Committee for Consideration

August 2009—Progress Meeting. Identify cost allocation impact of each scenario adopted by the Planning Workgroup as well as cumulative cost allocation impact of combined scenarios on each State.

September 2009—Final Candidate projects have been sent to UMTDI Executive Committee from transmission planning WG. Stylized tariffs/cost allocation methods refined as a result.

October 2009—UMTDI Executive Committee reports 2-3 stylized tariffs/proposed cost allocation methods and resulting cost impact information to Governors. Cost impact information includes cost impacts for each scenario recommended by the Planning Workgroup for each proposed costing method, and total cost impacts per state of all of the adopted scenarios under each of the proposed costing methods.