

UPPER MIDWEST TRANSMISSION DEVELOPMENT INITIATIVE

Staff Request for Stakeholder Information August 6, 2009

STAKEHOLDER RESPONSES MUST BE EMAILED BY CLOSE OF BUSINESS ON AUGUST 28, 2009

Please make all replies to:

randel.pilo@psc.state.wi.us, marya.white@state.mn.us, jeff.kaman@iowa.gov,
greg.rislov@state.sd.us, jlein@nd.gov

UMTDI Staff has prepared a series of questions (attached) to solicit Stakeholder input and suggestions that would be gathered and used to inform and assist the Staff with providing information to the UMTDI Executive Team.

In order to receive a fairly consistent “body” of responses overall, the Staff requests that:

- In addition to giving your opinion, it is important to go further to provide your productive suggestions for changes that, in your view, would benefit the topic of the question.
- Please respond to all questions in the survey. (Unanswered questions or questions using a different format may negate the value of your response or make it less useable in comparing to the remainder of the responses.)
- Please use the electronic file (Word document) form and email it back to the senders of this email.
- Please provide your Company/Organization name, a contact name, and the stakeholder group to which you would belong (using the list below). Staff intends to use this information to ensure that all pertinent stakeholder groups are represented in the responses received.

Transmission Owner	Cooperative Wholesale G&T
Public Consumer Advocate	Retail Cooperative Association
State Regulatory Authority	Municipal Wholesale G&T
Environmental-Other Advocate	Municipal Utility
Marketer	Other Transmission Dependent Utility
Independent Power Producer	Eligible End-use Customer
Exempt Wholesale Generator	Other (please specify)

- *Again, please remember that Staff must receive all emailed responses **BY
CLOSE OF BUSINESS ON AUGUST 28, 2009.***

UPPER MIDWEST TRANSMISSION DEVELOPMENT INITIATIVE

Staff Request for Stakeholder Information

August 6, 2009

Company/Organization Name: Great River Energy

Contact Email Address: Matt Lacey; mlacey@grenergy.com

**Stakeholder Group: Transmission Owner and Cooperative Wholesale
G & T**

(1) Do the present RECB and generator interconnection cost allocation mechanisms adequately and equitably allocate the costs of new transmission facilities constructed to collect and deliver the prime wind-energy resource areas of the five UMTDI States? YES NO

Please provide reasons and examples to support your answer (use as many lines as needed):

No. The current RECB and generator interconnection cost allocation mechanisms do not adequately and equitably allocate the costs of new transmission facilities constructed to collect and deliver wind energy in the UMTDI footprint. For example,

- *LODF disproportionately allocates network upgrade costs to those who are near the prime wind resource and does not consider the cost impact on those consumers;*
- *The current mechanism may, but doesn't necessarily, align cost allocation with the party that is receiving the wind energy that is enabled by the network upgrades; and*
- *The current mechanism inappropriately allocates zonal loads the ongoing variable expenses of the facilities.*

(2) Should UMTDI investigate a cost allocation method to fund transmission construction adequate to fulfill the RES/RPS requirements of just the five UMTDI States?

YES NO

Please provide reasons and examples to support your answer (use as many lines as needed):

No. The UMTDI should investigate dual cost allocation methods: 1) UMTDI-specific, and 2) “beyond-UMTDI” transmission solutions that are capable of meeting the corresponding RPS requirements. The resulting information would demonstrate whether there are economies of scale for a “beyond-UMTDI” transmission solution that are sufficient to generate voluntary cost sharing amongst parties beyond the UMTDI region (i.e. similar to UMTDI’s future discussions on cost sharing). Any “beyond-UMTDI” cost allocation must align with MISO cost allocation mechanisms to minimize seam problems or unanticipated consequences. To the extent that the non-UMTDI states conclude the benefits are not great enough to voluntarily cost share a “beyond-UMTDI” solution, a UMTDI-specific transmission solution and cost allocation method would be most appropriate.

(3) If your answer to No. 2 was NO, what justifications and methods would you provide to States outside of the UMTDI footprint to convince them to pay for a portion of any new transmission costs required to deliver energy to those States outside of the five-State footprint?

Please provide reasons and examples to support your answer (use as many lines as needed):

GRE believe it’s important to “right size” the transmission solution for the objective function. That is, GRE could not support a transmission solution to export energy to states outside of UMTDI if there were not a prior cost sharing agreement from those states. However, GRE understand that a UMTDI-specific transmission solution would inherently provide benefits beyond the UMTDI region.

If the transmission solution is designed to deliver energy to states outside of UMTDI, the importing states are receiving benefits including access to renewables to support RPS achievement, transmission reliability, reduced reserve margins and access to more generation resources (existing and

potential). Further, without federal government involvement, additional (i.e. post-UMTDI) transmission overlay development will be difficult as potential corridors are utilized and state certification of the projects may be difficult if the facilities are in excess of transmission needed for the UMTDI states.

(4) When allocating costs, should Generators pay for a portion of any new transmission construction required to collect, interconnect, or upgrade transmission facilities to deliver renewable energy from the Generator's facilities to load? YES NO

Please provide reasons and examples to support your answer (use as many lines as needed):

Yes. Generators should pay their fair share of costs for network facilities that are required to collect, interconnect, or upgrade transmission facilities to deliver renewable energy. Requiring generator investment in network upgrades:

- *sends appropriate pricing signals to generation developers as they site their projects,*
- *ensures that beneficiaries (ratepayers buying from the generators) pay (the generator's transmission costs passed through to purchaser),*
- *promotes economic efficiency as generator costs will reflect the total resource cost.*

(5) When allocating costs, should Transmission Owners pay for a portion of any new transmission construction required to collect, interconnect, or upgrade transmission facilities to deliver renewable energy from a Generator's facilities to load? YES NO

Please provide reasons and examples to support your answer (use as many lines as needed):

Yes. Transmission owners should pay some portion of new transmission facilities that reflects the reliability and load serving benefits that the upgrade provides. The existing RECB generator interconnection provisions, however, that require the Transmission Owner to pay 50 percent of the upgrades, regardless of the upgrade, is inappropriate.

Recognition of the benefits to the Transmission Owner could be identified if the required network upgrades replace, in whole or part, or are put in place earlier than, long term transmission plans identified by the Transmission

Owner as necessary to maintain reliability. For example, if a generator's interconnection request requires the advancement of a transmission owner's future transmission plan, a method could be developed to reflect that the transmission was to be built but was constructed sooner than required.

While GRE acknowledges there are benefits to network upgrades resulting from generation interconnection (e.g., reliability, future load serving, future generators) there must be a recognition that successive network upgrades provide diminishing returns to the Transmission Owner, especially if the rate of transmission capacity created exceeds the rate of load growth, for example.

(6) When allocating costs, should Load-Serving Entities (Retail Utilities) in the wind collection area, LODF footprint, or RPS load footprint pay for a portion of any new transmission construction required to collect, interconnect, or upgrade transmission facilities to deliver renewable energy from a Generator's facilities to load? If so, in what proportion?

YES NO

Please provide reasons and examples to support your answer (use as many lines as needed):

No. There is no need to assess cost directly to LSEs. LSEs will inherently end up paying costs through 1) generators' transmission costs passed through in power purchase agreements or incurred by LSE-owned generators, and 2) transmission owner costs passed through to the LSE through transmission rates.

Further, there is no cost basis to allocate costs to a wind collection area simply because network upgrades to facilitate wind are being developed there. LODF cost allocation has inherent problems as discussed in response to Question 1. And cost allocation based solely on RPS footprint basis would unnecessarily subsidize generators and the off-taker without acknowledging the various least-cost resource acquisition strategies of LSEs.

The wind collection area, LODF footprint, and RPS load footprint distinction is helpful in illustrating GRE's cost allocation thoughts. To start, postage stamp has a place in cost allocation but the cost allocation must reflect the benefits to the party allocated costs. For example, as indicated in GRE's response to question 9 we state that a load ratio share allocation of

100 percent of 765 kV facility costs is not appropriate since those facilities are inconsistent with the transmission necessary to meet GRE's future reliability and generation needs. Rather than serving load, 765 kV facilities are an efficient method to move large amounts of energy over long distance.

Allocating costs of a 345 kV facility on a load ratio share greater than the existing RECB would be appropriate for a subset of the MISO region, however; in the UMTDI region, for example, those facilities integrate better than 765 kV transmission when considering the existing transmission system and the 345 kV system's ability to provide both load-serving and regional transfer over the life of the asset. (A 20 percent load ratio share across the entire Midwest ISO footprint may be appropriate).

(7) When allocating costs, should the stockholders/owners of a Load-Serving Entity (Retail Utility) pay, or a transmission owner forgo incentives in some fashion, for a portion of any new transmission construction required to collect, interconnect, or upgrade transmission facilities to deliver renewable energy from a Generator's facilities to load? YES NO
Please provide reasons and examples to support your answer (use as many lines as needed):

No. For a cooperative corporation such as Great River Energy there is no distinction between stockholders and owners. In addition, Great River Energy, as a transmission owner, is allocated costs on behalf of its owners. GRE sees no reason to attempt to identify a party to allocate costs to at a more granular level than the transmission owner. Finally, the proposal is likely to be administratively burdensome and, thus, a more expensive and complex method to allocate costs to GRE's owners.

(8) When allocating costs, should energy consumers in the wind collection area, LODF footprint, or RPS load footprint pay for a portion of any new transmission construction required to collect, interconnect, or upgrade transmission facilities to deliver renewable energy from a Generator's facilities to load? Should this be above and beyond any renewable energy credit (REC) payment they might pay to the generator? YES NO
Please provide reasons and examples to support your answer (use as many lines as needed):

No. There is no need to assess cost directly to consumers. Consumers will inherently end up paying costs through 1) generators' transmission costs passed through in power purchase agreements or incurred by consumer-owned generators, and 2) transmission owner costs passed through to consumers through transmission rates paid by the LSE.

Further, there is no cost basis to allocate costs to a wind collection area simply because network upgrades to facilitate wind are being developed there. LODF cost allocation has inherent problems as discussed in response to Question 1. And cost allocation solely on RPS footprint basis would unnecessarily subsidize generators and the off-taker without acknowledging the various least-cost resource acquisition strategies of the LSEs.

(9) When allocating costs, should any other Parties/Entities pay for a portion of any new transmission construction required to collect, interconnect, or upgrade transmission facilities to deliver renewable energy from a Generator's facilities to load?

YES NO

Please provide reasons and examples to support your answer (use as many lines as needed):

Yes. GRE interpret the referenced "Parties/Entities" as transmission owners outside of the UMTDI region. To the extent that other parties/entities should be allocated cost of new transmission facilities, the costs should be allocated on a basis that is commensurate with the benefits received by the party. For example, some parties would argue that a 765 kV overlay transmission system should be allocated 100 percent on a load-ratio share basis. However, it is GRE's current opinion that a 765 kV overly is not necessary to serve the load serving reliability needs, including renewable generation, of GRE and its members. As a result, while some amount of postage stamp allocation may be appropriate, cost allocation of 100 percent of a 765 kV development on a load-ratio share basis would be disproportionate to the benefits that GRE would expect to receive from the project.

(10) From an end-use customer's perspective, what do you believe is a reasonable incremental cost for transmission facilities resulting from the UMTDI effort? Please attempt to quantify your answer on a per MWH, percentage, or other basis.

(use as many lines as needed):

Given a reliability problem, for example, a transmission solution should satisfy the criteria at the lowest reasonable cost, relative to other potential solutions. Similarly, the UMTDI effort should minimize the total generation and transmission expense required to meet the corresponding RPS of the states. Any cost increase to the end-use consumer due to transmission development for renewable energy should be clearly communicated to the consumer.

(11) Should the initial set of interconnecting generators to a newly constructed transmission line be the only generators charged a portion of the costs of the new transmission line that is required for UMTDI projects?

YES NO

Please provide reasons and examples to support your answer (use as many lines as needed):

No. However, without wholesale changes, GRE believe that the current RECB process and generation interconnection procedures leave little room for alternate methods. GRE recognize that the current process of allocating new transmission costs to a specific generator(s) creates a number of problematic issues, including:

- *A “first mover” penalty and the corresponding “second mover” benefit,*
- *the incentive for generator’s to try to “time” their interconnection request,*
- *discouraging long-term transmission planning, and*
- *discouraging rational expansion of generating resources.*

Potential methods to alleviate the effects of the current process could include a subscription process or paying for transmission service on an energy basis.

END