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.*

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Staff Request for Stakeholder Information

August 6, 2009

Company/Organization Name: ITC Holdings

Contact Email Address: dgrover@itctransco.com

Stakeholder Group: Transmission Owner

(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):

Response:

The present RECB cost allocation mechanisms are flawed because:

a) *by allocating costs using different methods for Baseline Reliability Projects, Regionally Beneficial Projects and Network Upgrades associated with generator interconnection, they do not support proper long term transmission grid planning for projects that are designed to meet multiple objectives both now and in the future, considering that these are assets with long in-service lives. Facilities to integrate renewable resources should be planned considering other factors as well (increasing reliability, reducing congestion and energy prices), but the current cost allocation framework makes it difficult to justify such projects, because they can only be studied as meeting a single requirement related to one of the cost allocation methods.*

b) The specific RECB provisions for each type of project allocate costs too narrowly because they are premised on the assumption that projects are developed for only one reason, which leads to too narrow of a definition of beneficiaries and cost causers. The existing provisions also do not attempt or allow quantification of benefits over a projects entire expected life and the cost/benefit thresholds (as high as 3:1) discourage beneficial projects.

In place of the current cost allocation provisions that are based on assigning costs to a single type of beneficiary, but under different methods for each type of benefit, a cost allocation method is needed that assigns costs to all beneficiaries of projects. There are many examples in other RTOs where all new higher voltage grid facilities are allocated on a postage stamp basis. It may be possible to develop other methodologies that more closely match cost allocations to the identification of specific beneficiaries based on each project's attributes, but still consider all benefits and beneficiaries.

However, any method must recognize that all beneficiaries of a new transmission facility with a 40 year or longer life cannot be identified with precision in studies that are done today. Recent history demonstrates that the use of transmission facilities changes over time - due to new policies and regulation, load growth, generation additions, changes in resource mix, fuel costs, and subsequent transmission system additions or retirements. Therefore, the beneficiaries also change. ITC believes this uncertainty about the distribution of benefits over time also supports broad allocation of costs for major projects across the RTO footprints.

(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):

Response:

The types of large grid projects needed to integrate the amounts of renewable generation being studied by UMTDI should be planned to meet both immediate needs and other long term objectives, considering all

possible benefits. Certain categories of benefits will accrue outside the five state region. For example, past Midwest ISO economic studies of 345 kV projects in Minnesota have identified economic benefits across the entire Midwest ISO footprint that are likely to result from these local projects. Although it is difficult to predict how benefits will change over time, once facilities are constructed and taken into account in future planning studies, it is likely that benefits from such projects will accrue outside the five UMTDI states. Cost allocation methods and planning to integrate additional amounts of renewable generation located in the UMTDI states ought to be looked at on at least an RTO-wide basis, and possibly even more broadly (MISO and PJM regions)

(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):

Response:

As discussed in our responses to the previous questions, cost allocation reform should allow justification of projects that will integrate significant amounts of renewable generation, but also provide other benefits that will become part of the project's justification. Current planning tools used at the Midwest ISO can be used to demonstrate widespread benefits in several categories from properly planned projects that are not limited in scope to only interconnection of renewable generation. For example, the types of projects being examined to integrate large amounts of renewable generation will also have substantial and quantifiable economic benefits (reduced production costs and LMPs, reduced losses), as well as reliability benefits, both now and in the future.

Note: Since questions 4 through 9 all ask about the appropriateness of assigning costs to certain types of entities, we believe our position will be clearer if we note that we have not limited our response to these questions only to "new or upgraded facilities needed to deliver renewable energy to load", because we believe in most cases, the properly planned facilities to integrate renewable generation ought to be identified after considering

other needs and additional benefits as well, and that these additional factors need to be taken into account in determining how to allocate the projects' costs.

(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):

Response:

ITC believes that proposals to allocate the costs of large grid expansion projects, like those being examined in UMTDI/RGOS studies, to interconnecting generators will curtail the development of renewable generation and the associated transmission projects. While there is a superficial appeal to developing transmission projects to interconnect renewable generation and allocating the projects' costs to the interconnecting generators, this approach will not work for large projects that have benefits beyond just interconnection of generation. The types of large EHV projects being studied by UMTDI to facilitate development and interconnection of large quantities of renewable generation will have other significant economic and reliability benefits that accrue broadly across the RTO footprint. Consistent with these broad benefits, ITC believes that broad cost allocation to RTO load is the preferred method of cost allocation. This method is also consistent with how the present grid was developed - without assigning incremental transmission costs to specific generators.

Assigning costs to generators has several problems: the lines may have longer lives than the generation projects; use of the lines will change over time; assigning excessive costs to generators will make renewable generation projects less competitive and curtail their development; and the lumpy nature of transmission investment over time will result in a widely varying"$ per kw of generation" cost for transmission. Even looking only at generator interconnection benefits, many of the benefits of renewable generation, such as reduced GHG emissions accrue more broadly across society – not only to the consumers in states that have established RPS requirements. But large grid expansion projects also will have broad economic benefits. We hesitate to state that ***none*** *of the costs of*

transmission projects should be allocated to generators under any circumstances, as this may limit the potential cost allocation models that may be considered, but we believe the focus in discussions ought to be on cost allocation among load serving entities consistent with how the costs of most current transmission facilities are recovered.

(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):

Response:

Costs should not be allocated to any entity solely on the basis that they are a transmission owner. While some transmission owners are also load serving entities or generation owners and marketers, other transmission owners (like the ITC companies) are stand-alone entities that only own transmission facilities and have no load or market involvement. While vertically integrated transmission owners may be among the beneficiaries of a transmission project, their benefit can be defined through their market participant roles as an LSE, marketer or generator.

(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):

Response:

We support allocation of costs to LSEs on a broad regional basis for the types of EHV transmission facilities that we believe are likely to be identified in UMTDI/MISO RGOS I planning studies. As discussed previously, the allocation of these costs should be broader than the wind collection area, the LODF footprint, or an RPS area, because the many types of benefits likely to result (environmental, economic, reliability) can be demonstrated to accrue on a broader basis.

(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):

Response:

Assignment of costs to utility owners and shareholders, or reduction of incentives is inconsistent with established utility regulatory models and would be counter-productive to the UMTDI and RTO goals of facilitating development of additional transmission infrastructure.

(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):

Response:

Since RTOs today transact at the wholesale level with the LSEs that represent individual energy consumers, continuation of this model results in assignment of costs to energy consumers without requiring the additional rules and infrastructure that would be necessary for the RTO to conduct transactions at the consumer level. Since we do not support assignment of costs to generators for the reasons stated above, under our preferred model, REC payments to generators would not include any recovery of transmission costs, so an LSE's cost responsibility would not be reduced by any REC obligations they might have.

(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):

Response:

We cannot identify any additional parties to whom costs should be assigned.

(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):

Response:

The reasonableness of any level of incremental costs for a project depends upon the level of benefits that result from a project. Narrowly focused projects designed to only interconnect generators with the minimum amount of new facilities may have the lowest incremental cost, but fail to provide additional benefits. If projects are developed considering all types of benefits likely to occur over their lives, the total benefits may justify a high incremental cost. There is no need for a cost target or cap, as long as expected benefits exceed a project's cost over its lifetime.

(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):

Response:

This situation illustrates another reason why interconnecting generators should not be charged a portion of the cost of the UMTDI projects. But in general, we do not support allocation of costs to "first movers" anytime when the potential exists for other entities to be "free riders."

END