

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,
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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: *Xcel Energy*

Contact Email Address: *brenda.c.prokop@xcelenergy.com*

Stakeholder Group: *Other (Vertically-Integrated Utility)*

Please find responses in italics after each question. Xcel Energy would like to note that for certain of these questions, a ‘yes’ or ‘no’ answer was not indicated, due to multiple potential interpretations of the question, or because the question required a more nuanced answer. Therefore, the ‘yes’ or ‘no’ answers provided below are less important than the fuller responses to the questions.

(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):

The following should be considered in determining whether the current RECB mechanisms adequately and equitably allocate costs:

- *The Line Outage Distribution Factor (LODF) analysis that is part of the RECB methodology may place an undue burden on customers located physically close to a transmission facility.*
- *The RECB methodology only indirectly allocates the cost of generation interconnection network upgrades to load that will purchase energy from the interconnecting generation.*
- *The RECB methodology may negatively impact the viability of renewable generation development, as the first mover “penalty”*

makes it difficult to construct large projects intended to benefit many generators

- *Difficulty in accessing capital necessary for up-front funding of Network Upgrades*
- *“Chicken and egg” problem with interconnection and power purchase agreements:*
 - *Difficulty in negotiating a power purchase agreement without known cost responsibility in the Interconnection Agreement*
 - *Don’t want to sign on to cost responsibility in interconnection agreement without having a purchaser lined up*
- *Fewer MW of production capacity and MWh of sales over which to spread these costs*

(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):

Yes, UMTDI should investigate cost allocation methods within the 5-state footprint, while identifying potential ‘seams’ issues between the Upper Midwest region and the rest of MISO, and considering the potential for other MISO stakeholders to refuse any share of the region’s transmission expansion costs. It is beyond the capability of the UMTDI states to fully shape the course of the MISO cost allocation discussions; however, UMTDI should work to ensure that the specific issues and concerns of the 5-state region are front and center in this process.

In addition, any cost allocation method identified by UMTDI should go hand-in-hand with cost recovery from end-use customers.

(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):

Parties in states outside of the UMTDI footprint benefit from facilities built in the UMTDI states:

- *Facilities provide outlet for generation resources that are enabling these states to meet their renewable portfolio standards*
 - *Delivery of energy*
 - *Availability of Renewable Energy Credits (RECs)*
- *Facilities provide general benefits to the entire MISO footprint as enumerated in response to question 1*
 - *General reliability benefits*
 - *Capacity for long-distance transfers that equalize the cost of energy across the footprint*

(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):

The following should be considered in determining whether and how generation developers should pay a portion of these costs:

- *Generators should bear some costs for the transmission facilities they cause to be built, as this encourages appropriate siting of resources.*
- *Cost allocation should relate to transmission planning; i.e., it should be driven by and congruent with the facilities that are identified as needed.*
- *Specific issues with allocation of costs to generation developers:*
 - *Resolution of the 'free rider' / 'late-comer' issue*
 - *Rules may need to be different for different types of resources*
 - *'Merchant' resources*
 - *UMTDI load-serving resources*
 - *Resources serving load outside the UMTDI region*
- *Some of these issues could be resolved by requiring interconnecting generators or their off-takers to take and pay for transmission service.*

(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 are the appropriate primary investors in transmission facilities, rather than funding such facilities via Contributions in Aid of Construction (CIAC). Having transmission owners as primary investors recognizes the core competency of transmission owners, as well as providing owners a full stake in facilities that they will be responsible for maintaining. Transmission owner concerns over cost allocation arise from uncertainty over who should pay the costs of facilities that are constructed – not who the investor is. Transmission owners require a clear path to, and reasonable certainty of, cost recovery with a fair return on investment, and arguments over who should pay present the risk that such costs will not be recovered.

(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):

The following should be considered in determining whether and how generation developers should pay a portion of these costs:

- *It is likely that allocating the costs of transmission to load-serving entities is the most efficient, cost-effective method.*
 - *Utilities have a more established business model, and are generally better credit risks, and thus tend to have a lower cost of capital.*
 - *Allocation of such costs to generation developers results in a risk premium and higher cost of capital that is passed through to the purchaser.*

- *However, the latter option may be the only way to ensure that the correct load (i.e., the load that benefits from the generation in question) is receiving the allocation of costs.*

(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):

If the customers of a vertically-integrated utility benefit from the facilities constructed by that utility, it may be appropriate for specific arrangements (such as power purchase agreements with new interconnecting generators) to reflect these benefits. However, transmission-owning utilities must be permitted to recover such costs from end-use customers. A utility that is not able to recover these costs, and which therefore cannot provide a reasonable return to its shareholders, will in time find itself unable to access capital to fund future transmission upgrades or indeed, to invest in its business at all.

(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):

Yes, consumers of energy should pay for a portion of transmission expansion costs, with the following considerations:

- *Allocation of costs should not be limited to those in the wind collection area or otherwise located physically close to wind resources.*
- *The current transmission provider practice of providing 'interconnection service' to a generation resource without guaranteed*

outlet or deliverability for the generation resource exacerbates the cost allocation issue.

- *Requiring that interconnecting generators or the off-takers of that generation take and pay for transmission service may ensure a more appropriate allocation of transmission costs to energy consumers.*

(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):

To the extent that other parties are identified who cause the need for or benefit from transmission facilities, such parties should receive an allocation of costs to the extent feasible. However, transmission-owning utilities want to be in the business of investing in and owning transmission, rather than identifying beneficiaries. Contention and litigation, not to mention the administrative burden, caused by 'beneficiaries pay' methodologies has the effect of increasing the uncertainty that transmission owners will recover their investments in facilities.

(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):

Xcel Energy is unable to identify a specific number that would represent a 'reasonable' incremental cost. Rather, a robust transmission planning process should identify the appropriate transmission facilities to be built, and the cost-effectiveness of various options should be part of the selection criteria.

(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):

The following should be considered in developing a solution to the 'free rider' / 'late-comer' issue:

- *“Build it and they will come,” but the earliest generation developers likely cannot bear the costs of large transmission projects.*
- *Reviewing gas industry practices may prove instructive:*
 - *Holding a periodic 'open season'*
 - *Limited timeframe in which to subscribe to the line*
 - *Commit to an extended period of time*
 - *Establishing a 'subscription' process in which late-comers pay back initial investors for a portion of the line*

END