

DRAFT COST ALLOCATION PRINCIPLES

Upper Midwest Transmission Development Initiative (UMTDI)
Principles Study Group of the Cost Allocation Work Group

April 2, 2009

- **Principle 1** In order to properly allocate the costs of a transmission project, the following questions must be answered through an open, transparent planning process:
 - What is the project's purpose or need?
 - Which stakeholders will directly benefit from the project?
 - Which stakeholders will indirectly benefit from the project due to proximity to the project or other factors?
- **Principle 2** Allocating costs of new electric network transmission for delivery of renewable energy resources requires a sound iterative planning process conducted by both the RTO and the affected transmission owners. This process ideally identifies all who cause and benefit from the associated new transmission construction and operation as well as the degree of their causation and benefit.
- **Principle 3** As a general rule, cost causers and beneficiaries should pay for the new electric network transmission needed for delivery of renewable energy resources. Determination of beneficiaries should consider more than one single metric. Determination of beneficiaries should consider future as well as current needs or uses and should assume that with the passage of time there is no distinction between transmission used for reliability and economic purposes.
- **Principle 4** No transmission owner should disproportionately bear the cost of new electric network transmission needed for delivery of renewable energy resources. As such, UMTDI cost allocation proposals shall not be designed to create incentives to leave the Midwest ISO. In applying this principle, both costs and benefits need to be considered.
- **Principle 5** For appropriate cost allocation, sound transmission planning should be done on a regional level, but also include impacts on sub regions as well as inter-regional impacts. Transmission planning should include all relevant existing and forecast demand loads or demand and energy use reduction programs as well as those existing and anticipated supply resources located within the regional level. Transmission planning must factor in the most current topology of the network, proposed projects included in the MTEP process, and any anticipated reliability upgrades of the transmission owners.
- **Principle 6** UMTDI cost allocation must positively interact with transmission planning and policies adopted by the Federal government.

- **Principle 7** For AC lines, the higher the voltage and the longer the transmission line, the greater the likelihood that a broader region will benefit by the project and should hence pay for the improvement.
- **Principle 8** For DC lines, beneficiaries (direct and indirect) should be identified at or surrounding the location of the AC-DC inlet to the line and the DC-AC outlet from the line as well as any other DC-AC conversion points along the line.
- **Principle 9** Merchant transmission investment should be permitted unless such investment directly conflicts with any State's laws. Unless direct or indirect benefits and/or beneficiaries are identified to which costs may be allocated, merchant project proponents should bear the costs of the project as well as any costs incurred to ensure that the overall network is not adversely affected. Individual state regulatory authorities must be satisfied by the appropriate legal arrangements that operation and maintenance of such facilities will follow proper engineering practice and that safety and reliability concerns meet all federal and state standards.
- **Principle 10** To the extent electrons are exported from the 5-state region, proportional costs should also be exported.
- **Principle 11** UMTDI favors transmission planning and cost allocation that is informed by clearly defined public policy goals and economic efficiency considerations.
- **Principle 12** Cost allocations should allow a reasonable opportunity for recovery of prudently-incurred costs.

**Comments on this set of preliminary principles are due Friday, April 17, 2009.
Please submit comments to the Principles Study Group's lead regulatory staff:**

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Your comments will be used by regulatory staff to produce another version for the UMTDI Executive Committee's consideration.