

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Midwest Independent Transmission System            )  
Operator, Inc.    )   ER06-18-004 and ER06-18-005

**COMMENTS OF THE ORGANIZATION OF MISO STATES**

On November 1, 2006, the Midwest Independent Transmission System Operator, Inc. (“Midwest ISO”) filed with the Federal Energy Regulatory Commission (“Commission”) proposed revisions to the Midwest ISO's Open Access Transmission and Energy Markets Tariff to comply with the Commission’s February 3, 2006 *Midwest Independent Transmission System Operator, Inc.*, Order.<sup>1</sup> The Midwest ISO states that the purpose of the proposed tariff revisions is to incorporate into the Tariff the methodology for: (1) establishing criteria for evaluating whether a Regionally Beneficial Project (“RBP”) would be expected to generate sufficient regional benefits to justify cost allocation to Transmission Customers in designated sub regions; (2) establishing procedures for allocating the costs of RBP resulting from the Midwest ISO's Regional Transmission Plan that meet such inclusion criteria to the appropriate parties; and (3) establishing cost allocation procedures for costs resulting from agreements with entities outside the Midwest ISO Region.<sup>2,3</sup>

---

<sup>1</sup> *Midwest Independent Transmission System Operator, Inc.*, 114 FERC ¶ 61,106 (2006) ("February 3 Order").

<sup>2</sup> November 1 Filing, at 1-2.

<sup>3</sup> The Indiana Utility Regulatory Commission and the Public Service Commission of Wisconsin believe that there should be a single planning process and cost allocation process for both reliability and economically beneficial projects. These commissions agree with the following statement:

*The OMS recommends that the Commission direct the Midwest ISO to explain whether, or how, it intends to evolve its determination of Baseline Reliability Projects and Regionally Beneficial Projects into a single planning process.* Pg.38

These commissions believe the vast majority of projects, if not all, are likely to have both reliability and economic value. This is especially true over time. They believe that most major projects are more likely to be in the realm of reliability. State commissions are likely to find that a reliability rationale is a more compelling justification for siting and approval of cost recovery. Regardless, it will be extremely difficult to determine which projects, or part of projects, are reliability projects versus economic projects. If objective criteria for making distinctions are applied,

On November 7, 2006, the Commission issued a Notice setting November 22, 2006, as the deadline for comments and protests. On November 8, 2006, the Midwest ISO filed an erratum to correct typographical errors in its November 1 filing. On November 9, 2006, the Organization of MISO States (“OMS”) filed with the Commission a request to extend the deadline for comments and protests. On November 14, the Commission issued Notice of the Midwest ISO’s errata filing setting November 29, 2006, as the Comment deadline on that filing. On November 17, 2006, the Commission issued a notice extending the deadline to December 21, 2006, for Comment on both Midwest ISO filings. The OMS hereby submits its Comments.

## **I. SUMMARY OF ISSUES**

### **A. Fundamental Changes to Attachment FF**

The following is a list of issues on which the OMS is submitting comments regarding the Midwest ISO’s tariff filing regarding fundamental changes to Attachment FF.

#### **Section II:** With respect to its planning process:

- The Midwest ISO needs to clearly set out an overall planning objective for the development of a portfolio of projects that provides region-wide benefits.
- The Midwest ISO needs to clearly specify additional measures that it intends to use in meeting this overall planning objective.

#### **Section III.A:** With respect to calculating benefits for including a proposed project for cost allocation:

- The Midwest ISO should apply the No Loss provision to pricing zones rather than to Planning Sub Regions.
- The Midwest ISO should apply the No Loss provision to the present value of benefits rather than on a year-to-year basis.<sup>4</sup>

---

the universe of solely economic projects that we are trying to address may prove to be small. We are concerned that treating transmission facility investments, with no discernible distinction in the reliability-economic continuum, differently for ratemaking purposes may create unintended consequences that may prove to be unjust and unduly discriminatory.

<sup>4</sup> The Public Service Commissions of Missouri and Wisconsin object to the application of a No Loss provision, and the Missouri Public Service Commission will provide separate comments to explain its objection. However, if the Federal Energy Regulatory Commission decides to adopt a No Loss provision, the Public Service Commissions of Missouri and Wisconsin supports the OMS recommendations of applying the No Loss provision to pricing zones rather than Planning Sub Regions and to present value of benefits rather than on a year-to-year basis.

**Section III.B:** With respect to allocation of projects included for cost allocation:

- The Midwest ISO should only apply the 20% postage stamp rate to facilities that are 345 kV and higher.<sup>5</sup>
- About half of the OMS states would add an additional qualification and apply the 20% postage stamp rate only when such facilities are shown to provide measurable benefits to at least one pricing zone in each of the Planning Sub Regions.<sup>6,7</sup>
- The Midwest ISO should allocate costs of a project to the pricing zones for an initial period ending five years from each project's in-service date before aggregating and spreading those costs to Planning Sub Regions.

**Section IV:** With respect to tariff language concerning project portfolios:

- Midwest ISO should change the tariff language as proposed by the OMS for the purpose of clarity.
- The Midwest ISO should add the OMS's proposed language regarding unreasonable cost allocations.
- The Commission should require the Midwest ISO to provide an annual report on steps taken to develop project portfolios.

**Section V:** With respect to the determination of appropriate sub regions for cost allocation:

- The Commission's approval of the proposed tariff should be conditioned on the Midwest ISO filing with the Commission a report on the appropriate determination of sub regions for the purpose of allocating the costs of Regionally Beneficial Projects.
- The Midwest ISO should thoroughly explain the possible future implications of using fixed geographic planning sub regions in the way proposed in Attachment FF so that the Commission can assess the justness and reasonableness of that approach.

**Section VI:** With respect to the inclusion of costs associated with lower voltage facilities:

- The Midwest ISO should change the tariff language as proposed by the OMS to include the costs associated with lower-voltage facilities needed to deliver the highest ratio of

---

<sup>5</sup> The Michigan Public Service Commission, the Indiana Utility Regulatory Commission, and the Public Service Commission of Wisconsin support adoption by the Federal Energy Regulatory Commission of a 20% region-wide cost allocation component as proposed by the Midwest ISO and do not think that this 20% component should be conditioned.

The Illinois Commerce Commission does not support adoption by the Federal Energy Regulatory Commission of a 20% region-wide cost allocation component in this case, but if the Commission decides to adopt a region-wide cost allocation component, the Illinois Commerce Commission supports the limitations on the applicability of such component as proposed by the OMS. The Illinois Commerce Commission has attached a Statement to these Comments of the OMS explaining its position.

<sup>6</sup> This further limitation is supported by the Iowa Utilities Board, the Kentucky Public Service Commission, the Minnesota Public Utilities Commission, the Missouri Public Service Commission, and the Montana Public Service Commission. The Minnesota Department of Commerce also supports this further limitation.

<sup>7</sup> In separate comments, the Missouri Public Service Commission is proposing an alternative to this condition, but if the Commission rejects the Missouri alternative, the Missouri Public Service Commission supports the condition to only apply the 20% postage stamp when 345 kV and above facilities are shown to provide measurable benefits to at least one pricing zone in each of the Planning Sub Regions

benefits to costs from higher voltage projects or to better distribute the benefits of higher voltage facilities with the sub regions.

- The Midwest ISO should change the tariff language as proposed by the OMS to exclude costs of these lower voltage facilities from region-wide postage stamp allocation.
- Midwest ISO should provide an explanation of why it has not included in its proposed planning and cross zonal allocations of Regionally Beneficial Projects lower voltage projects that are not needed to deliver or distribute benefits from higher voltage projects.

**Section VII:** With respect to the allocation of costs of reliability upgrades not located in the Midwest ISO footprint:

- The tariff language proposed by the Midwest ISO regarding the allocation of cross border reliability projects is premature and should be removed from the proposed tariff.

**Section VIII:** With respect to several clarifications of the Midwest ISO's November 1 filing:

- A. The Midwest ISO should provide an on the record description of the system load-flow model it expects to use and the manner it expects to use it.
- B. With respect to certain measurements of costs and benefits:
  1. Attachment FF should specify that the modeling period for calculating benefits should include at least ten years, and the Midwest ISO should specify the present value method it intends to apply over the modeling period.
  2. The Midwest ISO should explain the specific interpolation method that it plans to apply for estimating benefits over the modeling period.
  3. Attachment FF should specify project costs used to calculate the benefit-to-cost ratio as the present value of revenue requirements over the same time period used to calculate benefits.
- C. The Midwest ISO should perform sensitivity analyses on locations and amounts of other transmission and non-transmission additions and retirements to ensure robustness of benefits from candidate RBPs.
- D. The Midwest ISO should engage with its stakeholders to develop and clarify its planning process for RBPs for subsequent inclusion in its tariff.
- E. The Midwest ISO should continue to meet with Midwest ISO stakeholders in an effort to develop additional measures of benefits and set a time for reporting back to the Commission the results of this effort.
- F. The Midwest ISO should clarify and thoroughly explain the concept of "potential Regionally Beneficial Projects".
- G. As the Midwest ISO and its stakeholders gain experience with Regionally Beneficial Project planning, the appropriateness of the benefit/cost ratio threshold should be reviewed.
- H. The Midwest ISO should thoroughly explain whether or how it intends to evolve into a single planning process its determination of Baseline Reliability Projects and Regionally Beneficial Projects.

- I. The Midwest ISO should clarify potential conflicts in the tariff language regarding Baseline Reliability Projects and Regionally Beneficial Projects.
- J. The Midwest ISO should identify the “Project Reporting Guidelines” and should submit that document on the record of this case with a full explanation.

**Section IX:** With respect to the Commission’s review of the Midwest ISO filing:

- A. The Midwest ISO’s filing did not result from a formal settlement compromise process, and the Midwest ISO’s mischaracterization of its filing as a “compromise” should not be allowed to influence the Commission’s independent review process in this case.
- B. While the Midwest ISO’s proposal is an improvement over the existing Attachment FF, it is not necessarily just and reasonable as filed. The Commission should direct the Midwest ISO to make the tariff changes and clarifications discussed in these Comments.

## **II. THE COST ALLOCATION POLICY SHOULD PROVIDE REASONABLE ASSURANCES THAT EXPECTED BENEFITS WILL EXCEED EXPECTED COSTS**

The OMS supports transmission expansion and transmission cost allocations that best serve wholesale and retail customers. Customer confidence in the value of new transmission and the fairness of transmission cost allocations is essential for efficient transmission expansion that reliably makes available to customers the expected benefits from the Midwest ISO’s market-based regional central dispatch of energy resources.

If a state’s regulators are not reasonably convinced that the state’s wholesale and retail customers will benefit from new transmission or that transmission cost allocations are fair, then the prospects of regulatory approvals for new transmission in that state will diminish. Thus, customer and regulator confidence in the value of new transmission and the fairness of allocated transmission costs is crucial for needed and otherwise beneficial transmission expansion.<sup>8</sup>

---

<sup>8</sup> The IURC agrees that customers and regulatory commissions need to have assurances that the pricing approach is “fair.” The IURC, however, believes that those that build transmission must also have confidence in the fairness of any proposal. That is, transmission owners should have adequate assurance that their prudently incurred costs in constructing transmission will be recovered and that they will realize a fair return on their investment. To this end, since the Midwest ISO’s proposal was developed in an open stakeholder process and has the general support of many transmission owners – the entities most likely to build transmission – the IURC believes that the Midwest ISO’s proposal ought to be given a high degree of deference by the FERC. While “fairness” is important, there are other objective criteria such as “ease of administration,” “efficiency” and etc that need to be considered as well.

The IURC is also concerned that, whatever approach is adopted, investment in transmission be the most cost-

While this observation may seem obvious, the OMS is uniquely aware that such confidence does not come easily. The challenges at hand for the Midwest ISO's tariff proposal to gain the confidence of both customers and regulators are two-fold. First, the Midwest ISO's tariff proposal must give customers – at an appropriate level of aggregation and for an appropriate period of time – reasonable confidence that each transmission upgrade for which they will be expected to pay will create economic benefits that meet or exceed the respective total costs of those upgrades. Second, the Midwest ISO's tariff proposal must give customers reasonable confidence that the respective economic benefits they receive from transmission upgrades for which they will be expected to pay will meet or exceed the customers' respective shares of the costs of the transmission upgrades.

Customers should be able to expect that the savings in supply costs and other benefits received from the transmission expansion will more than offset their allocated share of the increase in costs associated with the transmission expansion. Unfortunately, the proposal set forth by the Midwest ISO in this filing does not meet these challenges, primarily due to the level of aggregation being proposed for cost allocation combined with the limited benefits metrics that the Midwest ISO intends to analyze for purposes of cost allocation.<sup>9</sup> The Midwest ISO is

---

effective solution when objectively compared to generation, demand-response, or combinations of alternatives. The Midwest ISO is in the best position to evaluate the resource requirements due to its independence, state-of-the-art planning tools, and staff expertise. The IURC is hopeful that the state commissions, because of their jurisdiction over power supply resources and demand management, will take a more active role in working with the Midwest ISO to facilitate the development of cost-effective resources.

<sup>9</sup> The Indiana Utility Regulatory Commission does not believe there is one right method for the allocation of costs of regionally beneficial projects (RBP). While the notion of those that benefit ought to pay is a correct theoretical aspiration, in a practical sense there is no way to apply this to pricing transmission system additions with certitude. Specifically, the IURC believes that there is no absolute means of determining the beneficiaries. The absence of certainty regarding beneficiaries is especially true over time. That is, the load and resources will change and correspondingly will cause changes to the transmission system. As a result the beneficiaries will change. Over the long run, there will be instances where some customers benefit more than what they pay and, in other periods, the reverse will be true. *Fundamentally, the IURC believes that the methods proposed by the Midwest ISO and the OMS are both reasonable cost allocation methods especially given the lack of experience in utilizing either method.*

Because of the absence of any experience and since the RECB I Order requires the Midwest ISO to evaluate the consequences of the RECB I approach for reliability projects within one year, a requirement to evaluate RECB II

proposing to allocate twenty percent of RBP costs on a region-wide basis and the remaining eighty percent among three very large sub regions, without sufficient justification based on the modeled distribution of benefits to customers in various pricing zones.<sup>10</sup>

In its definition of RBPs, the Midwest ISO uses only benefits metrics associated with modeled Adjusted Production Cost and Load LMP savings. However, the Midwest ISO's proposed allocation of costs - especially the 20% region-wide component - appears to be based on the assumption that there are benefits that cannot currently be quantified but will accrue to all customers from what the Midwest ISO has defined as RBPs. This ambiguity in the tariff arises from two deficiencies: 1) while the tariff uses the term "Regionally Beneficial Projects," there are no measures provided to indicate that a project or portfolio of projects actually provide region-wide benefits; and 2) nowhere in the tariff does the Midwest ISO commit to a planning objective for the development of a portfolio of projects that will provide region-wide benefits. Instead, RBPs are defined as projects that meet measures of benefits (Adjusted Production Costs and Load LMP) that can only provide assurance of region-wide benefits to the extent that every pricing zone within the Midwest ISO has positive levels for both metrics. This appears to be an unrealistic expectation to have for any given project.

In this regard, the Midwest ISO needs to broaden its focus in two respects. First, with respect to projects included as RBPs, the Midwest ISO needs to clearly set out an overall planning objective for the development of a portfolio of projects that will provide region-wide benefits. Instead of focusing on a single project, the emphasis should be on a set of projects that

---

should be present in the Midwest ISO's proposal, the OMS's proposal, or any approach approved by the FERC.

<sup>10</sup> A number of State Commissions (North Dakota, Indiana, Michigan, Minnesota, South Dakota, and Wisconsin) supported removing the language "twenty percent of RPB costs on a region wide basis and the remaining" and the word "very" in this paragraph and "especially the 20% region wide component" from the following paragraph. This language conflicts with the position of these same states with the issue in the Summary of Issues, Section III.B. The Minnesota Department of Commerce concurs with this position.

together provide region-wide benefits. Second, the Midwest ISO needs to clearly specify additional measures of benefits that it intends to use in meeting this overall planning objective.

In the absence of such clearly defined measures of region-wide benefits, as explained in detail below, the OMS is proposing an alternative allocation method that attempts to address these flaws in the Midwest ISO's proposal. The OMS's proposal is intended to be in place until the Midwest ISO more completely develops measures of region-wide benefits to be included in its tariff. At the time that such measures are proposed, the OMS will re-evaluate its position with respect to cost allocation.<sup>11</sup>

### **III. PROPOSED CHANGES TO RBP PROJECT ELIGIBILITY CRITERIA FOR CROSS-ZONAL COST ALLOCATION AND RBP PROJECT COST ALLOCATION**

The proposed tariff for Regionally Beneficial Projects has several separate, but not distinct, components relating to the inclusion of a project in the MTEP as an RBP and the eligibility of such a project for RBP cross-zonal and regional cost sharing. The first component is found in Section II.B of proposed Attachment FF, in which the Midwest ISO describes the criteria used to determine whether a project should be included in the Midwest ISO's Transmission Expansion Plan (MTEP) as a Regionally Beneficial Project. Section II.B states that RBPs are network upgrades:

- (i) that are proposed by the Transmission Provider, Transmission Owner(s), ITC(s), Market Participant(s), or regulatory authorities;
- (ii) that are found to be eligible for inclusion in the MTEP or are approved pursuant to Appendix B, Section VII of the ISO agreement after June 16, 2005, applying the factors set forth in Section I.A of this Attachment FF;
- (iii) that have a Project Cost of \$5 million or more;
- (iv) that involve facilities with voltages of 345 kV or higher;
- (v)

---

<sup>11</sup> The Montana Public Service Commission wishes to emphasize the precautions, qualifications and concerns expressed in Section II regarding the cost allocation for regional projects. The Midwest ISO should provide sufficient justification for the methodology based on the modeled distribution of benefits to customers. Yet, the Midwest ISO proposal does not ensure that a project, or even a portfolio of projects, will produce benefits to justify the proposed allocation of costs.

that are not determined to be Baseline Reliability Projects or New Transmission Access Projects; and (vi) that are found to have regional benefits under the criteria set forth in Section II.B.1 of this Attachment FF.

The second component is found in Section II.B.1 of proposed Attachment FF in which the Midwest ISO describes the criteria for determining whether a project is eligible for RBP regional cost sharing. In that part of the Tariff, the Midwest ISO describes its Weighted Gain-No Loss (“WGNL”) formula and its proposed benefit/cost ratio among other things.

Finally, Section III.A.2.f(i) and (ii) of the proposed Attachment FF describes the Midwest ISO’s proposed cost allocation formula for RBPs that are eligible for regional cost sharing. In those subsections, the Midwest ISO describes its proposal to allocate project costs 20% regionally and 80% sub regionally. The allocation of these costs will determine which ratepayers will pay the costs associated with RBPs eligible for cost sharing that are eventually approved and built. In this section of these Comments, the OMS is proposing three significant changes to the eligibility and allocation aspects of the Midwest ISO’s proposal as follows: (1) apply the no-loss aspect of the WGNL metric to pricing zones rather than to Planning Sub Regions; (2) apply the no-loss aspect of the WGNL metric to the sum of the present value of zonal benefits, rather than year to year; and (3) allocate costs to pricing zones for an initial period ending five years from a project’s in-service date and then aggregate up to the sub region thereafter, rather than allocating broadly to the sub region for the entire cost recovery period.

**A. The Eligibility Criteria in Section II.B.1 of the Proposed Attachment FF for Cross-Zonal and Regional Cost Allocation Should Be Changed to Properly Reflect Expected Adjusted Production Cost and Load LMP Benefits to the Entire Midwest ISO Region as Well as to Individual Pricing Zones within Each Planning Sub Region.**

The Midwest ISO’s proposed Attachment FF tariff language would apply the Weighted

Gain<sup>12</sup> No Loss<sup>13</sup> metric to the Midwest ISO's West, Central and East Planning Sub Regions.

The OMS recommends that the Midwest ISO's proposal be changed to apply the no loss provision: (1) at the pricing zone level, rather than at the sub regional level; and (2) to the sum of the present value of benefits over the modeling period, rather than year to year in the model.

**1. Proposed Changes to Apply the No Loss Aspect of the WGNL Metric to Pricing Zones Rather Than Planning Sub Regions and to the Sum of the Present Value Benefits Rather Than Year-To-Year.**

The tariff language in Section II.B.1 of Attachment FF should be revised as follows:

1. Criteria to Determine Whether a Project ~~Should be Included as a~~ is Eligible for Regionally Beneficial Project Cross-Zonal and Regional Cost Sharing: The Transmission Provider Shall employ multiple metrics and a multi-year analysis including sensitivity analyses guided by input from the Planning Advisory Committee to evaluate the anticipated benefits of a potential Regionally Beneficial Project in order to determine if such a project is eligible for regional cost sharing. The Transmission Provider shall perform this inclusion analysis as follows:

a. The Transmission Provider shall utilize a Weighted Gain, No Loss ("WGNL") metric to analyze the anticipated annual economic benefits of construction of a proposed Regionally Beneficial Project to Transmission Customers in each ~~of three Planning Sub Regions as reflected in Attachment FF-3~~ pricing zone, based upon: (1) Adjusted Production Cost methodology (adjusted to account for purchases and sales) ("APC"); and (2) Load Locational Marginal Pricing ("Load LMP"). The Load LMP benefit for each ~~Planning Sub Region~~ pricing zone shall be calculated by multiplying the LMP at each modeled load bus in the ~~Planning Sub Region~~ pricing zone by the Load at the bus, for each period of planning model simulation (Load LMP \* Load). The WGNL metric for each ~~Planning Sub Region~~ pricing zone shall be developed by weighting the APC benefit and the Load LMP benefit by adding seventy percent (70%) times the APC for each ~~Planning Sub Region~~ pricing zone plus thirty percent (30%) times the Load LMP benefit for each ~~Planning Sub Region~~ pricing zone.

$$\text{WGNL} = (70\% \text{ APC} + 30\% \text{ Load LMP})$$

The WGNL metric shall be set to zero for any ~~Planning Sub Region pricing zone for each year of evaluation~~ for which either the present value over the modeling period of the APC benefit or the Load LMP benefit for the Planning Sub Region pricing zone is less than zero. The ~~annual total project~~ present value over the benefit for a Regionally Beneficial Project shall be determined as the sum of the present value over the

---

<sup>12</sup> Weighted Gain is measured by 70% Adjusted Production Costs + 30% Load LMP.

<sup>13</sup> If either Adjusted Production Cost benefits or Load LMP benefits are negative, then no costs are included.

~~modeling period of the WGNL values for each Planning Sub Region pricing zone. The total project benefit shall be determined by calculating the present value of annual benefits for the multi-year evaluations.~~

**2. Reasons Why the OMS Supports Application of the No Loss Aspect of the WGNL Metric to: a) Pricing Zones Rather Than to Planning Sub Regions; and b) to the Present Value over the Modeling Period Rather Than from Year-to-Year.**

The OMS is concerned that the application of the No Loss aspect of the WGNL metric to entire Planning Sub Regions rather than to pricing zones within each Planning Sub Region would fail to capture actual modeled APC and Load LMP benefits and thereby preclude projects from the MTEP that are of overall benefit to the Midwest ISO footprint.<sup>14</sup> As discussed in further detail below, the No Loss aspect of the WGNL metric should instead be applied to the pricing zones within each Planning Sub Region. The OMS is also concerned that unwarranted exclusion of benefits to the Midwest ISO footprint will occur if the No Loss provision is applied to individual modeling years rather than to the present value of all the years included in the modeling period for the calculation of benefits.

**a. Applying the No Loss Provision to Pricing Zones.**

The No Loss provision of the WGNL metric, when applied at the Sub Regional level, totals the Adjusted Production Costs and the Load LMP measures over all of the pricing zones within each Sub Region. If either of these metrics is negative on a zonal basis for any year in the modeling analysis, then the benefits to those pricing zones within that Sub Region would not be included in the measure of project benefits that would be compared to project costs to determine whether or not the project costs would be eligible for allocation. In essence, if negative values of a metric for some pricing zones outweigh the positive values of that same metric for other

---

<sup>14</sup> The Missouri Public Service Commission has additional concerns regarding the application of the No Loss provision of the WGNL metric which will be presented in a separate filing.

pricing zones within the same Planning Sub Region, then the positive benefits from the latter pricing zones would not be counted. This would result in an inaccurate assessment of the overall APC and Load LMP benefits the project may provide.

**b. Applying the No Loss Provision to the Present Value of Benefits.**

The OMS is proposing to apply the No Loss provision to the present value of all years in the modeling period, rather than to each year of the evaluation as proposed by the Midwest ISO. The reason for not applying the No Loss provision on a year-to-year basis is that a negative measure of the APC or Load LMP benefit in a single year does not result in harm to any pricing zone. Rather it is only when the total APC or Load LMP benefits from a project are negative that a pricing zone might be harmed. Thus, in measuring the overall APC and Load LMP benefits from a project to the Midwest ISO footprint, benefits of one metric that are negative in one year should not be allowed to cancel out benefits from the other metric that are positive in that same year.

In addition, if a subset of years has large negative APC or Load LMP benefits, while another subset of years has small positive APC or Load LMP benefits, the Midwest ISO should be taking into account the present value of both positive and negative benefits as they impact a pricing zone, rather than zeroing out only the subset of years with large negative benefits. Failure to take these present values into account could result in misrepresenting a pricing zone as having overall positive APC or Load LMP benefits.

**B. Instead of Immediately Allocating Costs of Regionally Beneficial Projects to Planning Sub Regions, These Costs Should Be Allocated to Pricing Zones for an Initial Period Ending Five Years from a Project's In-Service Date and Then Aggregated up to Sub Regions Thereafter.**

Section III.A.2.f of the Midwest ISO's proposed Attachment FF would allocate the costs

of Regionally Beneficial Projects to Planning Sub Regions and apply load-ratio share rate design to collect project costs from all pricing zones located within each Planning Sub Region to which costs are allocated. In order to better match cost allocation with modeled APC and Load LMP beneficiaries, the OMS recommends that costs should be allocated to pricing zones for an initial period ending five years from a project's in service date and then aggregated up to Sub Regions thereafter.

**1. Proposed Changes to Clarify the 20% Regional Cost Allocation Component and to Allocate Cost to Pricing Zones, Rather Than to Sub Regions, for an Initial Period of Five Years.**

The OMS recommends that the tariff language in Section III.A.2.f of Attachment FF be revised to reflect the allocation of costs to pricing zones, as follows:

f. Regionally Beneficial Projects: Costs of Regionally Beneficial Projects eligible for cross-zonal and regional cost allocation shall be allocated as follows:

i) Twenty percent (20%) of the Project Cost of ~~the~~ each Regionally Beneficial Projects shall be allocated on a system-wide basis to all Transmission Customers and recovered through a system-wide rate, provided that such cost allocation shall only apply to the portion of each such project that constitutes facilities that are 345 kV or higher and that provide measured benefits to at least one pricing zone in each of the Planning Sub Regions.

ii) ~~Eighty percent (80%) of the costs~~ All other eligible Project Costs of the each Regionally Beneficial Projects shall initially, for a period ending five (5) years from the project in service date, be allocated to pricing zones based on the relative benefit determined for each pricing zone using the methodology for project benefit determination of Section II.B.1. At the end of this initial 5 year allocation, the depreciated value of the Project Cost allocated to the pricing zones will be added on a planning sub region-wide basis and allocated to all Transmission Customers in each of ~~the three defined~~ the Planning Sub Regions in which those pricing zones are located. Planning Sub Regions shall be defined based upon the Transmission Provider Planning Sub Regions: West, Central, and East as defined in Attachment FF-3. ~~The allocated cost to each Planning Sub Region shall be based on the relative benefit determined for each Planning Sub Region using the methodology for project benefit determination of Section II.B.1.~~

**2. Reasons for Applying a Region-Wide Postage Stamp Rate Only to the Project Costs for 345 kV and Above Facilities and Only Costs of Facilities that Provide Benefits to at Least One Pricing Zone in Each of the Planning Sub Regions.<sup>15</sup>**

The rationale for allocating a transmission project's costs on a region-wide basis should be that the project truly provides region-wide benefits. The purpose for the OMS's proposal in this regard is to eliminate from a region-wide allocation of costs: 1) lower voltage facilities; and 2) those projects that cannot be shown to provide region-wide benefits. The proposed tariff is unclear concerning the inclusion of lower voltage projects with respect to cost allocation. This issue is presented more fully in Section VI of these comments, where the full context of lower voltage projects is discussed. With respect to the cost of facilities that provide region-wide benefits, region-wide means providing benefits to all three of the Planning Sub Regions within the Midwest ISO footprint by demonstrating measurable benefits to at least one pricing zone in each Planning Sub Region. In this regard, region-wide "measured" benefits would not be limited to Adjusted Production Costs and Load LMP that are the only metrics proposed by the Midwest ISO to be used in its determination of RBPs. Instead, the OMS is encouraging the Midwest ISO to expand its use of benefit metrics to show how specific projects provide region-wide benefits before the costs of those projects are included in a region-wide postage stamp rate. The OMS believes that, at this time, putting this requirement in the tariff provides an incentive for the Midwest ISO to move forward with the development of a planning process that focuses on portfolios of projects that would provide region-wide benefits, and on the development of additional metrics needed to carry out that planning objective.

---

<sup>15</sup> The Illinois Commerce Commission does not support adoption by the Federal Energy Regulatory Commission of a 20% region-wide cost allocation component in this case, but if the Commission decides to adopt a region-wide cost allocation component, the Illinois Commerce Commission supports the limitations on the applicability of such component as proposed by the OMS. The Illinois Commerce Commission has attached a Statement to these Comments of the OMS explaining its position.

### **3. Reasons Why the OMS Supports Allocating Costs to Pricing Zones for an Initial Period Ending Five Years from a Project's In-Service Date.**

The Midwest ISO's proposed allocation of project costs to Planning Sub Regions spreads the costs to all pricing zones in each Planning Sub Region that contains a pricing zone that is determined to benefit, irrespective of whether or not such an allocation of costs results in customers within some pricing zones having to pay more in costs than the Midwest ISO's modeling analysis would show that they can expect to receive in APC and Load LMP benefits. The apparent assumption underlying the Midwest ISO's recommendation of this type of allocation is that since all projects eligible for RBP treatment will involve facilities of 345 kV or higher, it would then follow that all transmission customers would receive some form of benefit from the upgrades. In addition, some might argue that while the WGNL metric measures some of the benefits, there may be other Sub Region wide benefits not captured by this metric. Moreover, the benefits measured over a ten-year future period are based on assumptions made regarding inputs such as fuel costs and locations of new generation that become more uncertain the further out into the future that the Midwest ISO is estimating such benefits.

While there are aspects of the above arguments that are valid, allocating costs to Sub Regions fails to address a critical concern of the OMS that the choice to use the Sub Regions in this way may result in customers in certain pricing zones having to pay more in costs than they can be expected to receive in APC and Load LMP benefits. The OMS believes that there should be a safeguard to prevent this from occurring. While the Midwest ISO states that it intends to design portfolios of projects that "tend to provide benefits throughout each sub region" as a part of the planning process for Regionally Beneficial Projects, the Midwest ISO has yet to propose specific criteria for forgiving those costs to a pricing zone that is required to pay more in costs than it can be expected to receive in APC and Load LMP benefits. Furthermore, the Midwest

ISO has yet to develop a portfolio of Regionally Beneficial Projects that “tend to provide benefits throughout each sub region.” Thus, there is no experience with this concept to provide some assurance that a pricing zone within a Planning Sub Region will not be allocated more costs than it can expect to receive in APC and Load LMP benefits under the Midwest ISO’s proposal.

In order to deal with both benefit uncertainty into the future and allocating costs in excess of expected APC and Load LMP benefits, the OMS recommends that the tariff be modified to state that project costs will initially be allocated to pricing zones for a period ending five years from the in-service date of the project and, thereafter, to the sub regional level. Like the Midwest ISO’s proposal, the zonal benefits modeling analysis to implement the OMS’s proposal would be conducted only one time when a project is included as an eligible RBP in the MTEP. It is reasonable to place a greater degree of reliance on the accuracy of the Midwest ISO’s zonal benefits modeling analysis results for the early years of a project’s in-service period, rather than for later years. Accuracy in this sense refers to the ability of the model to correctly forecast a project’s APC and Load LMP benefits and beneficiaries. The Midwest ISO refers to this issue in its Transmittal Letter as one of “granularity.”<sup>16</sup>

The primary reason for choosing five years as the initial zonal allocation period rather than some other number of years is to allow the Midwest ISO sufficient time and experience to attempt to develop portfolios of Regionally Beneficial Projects that will not result in pricing zones having to pay more in costs than they can expect to receive in APC and Load LMP benefits, as well as to provide time for the evaluation and potential adoption of additional project value drivers (i.e., benefit metrics in addition APC and Load LMP). In addition, a five year period is consistent with the payback associated with a project that takes five years to build and

---

<sup>16</sup> Midwest ISO Transmittal Letter, at 7.

requires a benefit to cost ratio of 2:1 to be included as a Regionally Beneficial Project. It is reasonable to expect that projects that involve facilities of 345 kV and above will require at least five years to complete and that the benefits will cover the costs within a five-year time period.

Under the Midwest ISO's proposal, the Midwest ISO would evaluate zone-specific APC and Load LMP benefits for each project for each modeled period. However, the Midwest ISO would not apply such modeling results to cost allocations. The OMS is proposing that the modeled zonal APC and Load LMP beneficiary calculations be used for zonal cost allocations for the first five years of a project's in-service period.

#### **IV. PROPOSED CHANGES TO THE MIDWEST ISO'S TARIFF LANGUAGE CONCERNING PROJECT PORTFOLIOS**

As touched on briefly above, Section III.A.2.f.iii of the Midwest ISO's proposed Attachment FF specifies that the Midwest ISO "seeks to identify and manage the development of . . . portfolios of projects that tend to provide benefits throughout each sub region over the planning horizon." While OMS supports the Midwest ISO's stated intention in this regard, changes to this section are needed for clarification and completeness.

##### **A. Proposed Changes to Section III.A.2.f.iii.**

The tariff language in Section III.A.2.f.iii of Attachment FF should be modified as follows:

iii) Excessive Funding or Cost Requirements: ~~The Transmission Provider shall seek to identify and manage the development of, as a part of the planning process for Regionally Beneficial Projects, portfolios of projects that tend to provide benefits throughout each sub region over the planning horizon.~~ The Transmission Provider shall analyze on an annual basis whether the Regionally Beneficial Projects could produce any of the following negative outcomes: portfolios developed in accordance with this goal and the criteria in Section III. A.2.f. 1) unintentionally result in unjust or unreasonable annual capital funding requirements for any Transmission Owner; or 2) result in unjust or unreasonable cost allocations or rate increases for Transmission Customers in designated

pricing zones; or 3) otherwise result in undue discrimination between the Transmission Customers, Transmission Owners, or any Market Participants. ~~In order to minimize negative results of 2) and 3), the Transmission Provider shall seek to identify and manage the development of, as a part of the planning process for Regionally Beneficial Projects, a portfolio of projects that provides benefits greater than allocated costs for each pricing zone and throughout each Planning Sub Region over the planning horizon of the MTEP.~~ The Transmission Provider shall provide an annual report of its analysis to the Planning Advisory Committee and to the Organization of MISO States, ~~including any unintentional results describing any steps taken to manage the development of a portfolio intended to provide benefits greater than allocated costs for each pricing zone and throughout each Planning Sub Region over the planning horizon of the MTEP, as well as steps taken to minimize any other negative outcomes.~~

## **B. The Changes Are Needed for Clarification As Well As for Completeness**

### **1. Movement of the First Sentence to the Middle of the Paragraph**

The first sentence in the paragraph was moved to the middle of the paragraph for purposes of improving the clarity of the paragraph. Moreover, the development of a portfolio of projects to deliver benefits greater than allocated costs for each pricing zone and across each Planning Sub Region is not necessarily related to all of the negative outcomes that are listed in what was the second sentence of the paragraph, and this could cause confusion to anyone reading this provision of the tariff. Specifically, what is now labeled as negative outcome 1) (the unintentional result of unjust or unreasonable capital funding requirements for a Transmission Owner) is not necessarily helped by adding the goal of managing the development of a portfolio intended to provide benefits greater than allocated costs for each pricing zone and throughout each Planning Sub Region over the planning horizon of the MTEP. With this change, the paragraph now begins with a list of possible negative outcomes that the Midwest ISO would seek to avoid in its planning process, and then is followed by a planning goal that may help to prevent some, but not all, of these negative outcomes from occurring. The reference to “benefits greater than allocated costs for each pricing zone” was added because the Midwest ISO’s proposal

provides for 20% of project costs to be allocated to all Midwest ISO pricing zones on a load ratio share basis regardless of the zonal beneficiary modeling results. The portfolio balancing efforts proposed by the Midwest ISO should also be aimed at counter-balancing those otherwise unsupported Midwest ISO-wide cost allocations.

## **2. The Need to Add Language Regarding “Unreasonable Cost Allocations”**

The proposed language may include unreasonable cost allocations under the concept of “undue discrimination between the Transmission Customers.” If so, the addition of this language simply clarifies the Midwest ISO’s proposal to include unreasonable cost allocations. If not, then the proposed language addresses a concern that is important to state regulators, and should therefore be added. The word “could” is added at the appropriate places to indicate that unreasonable results are a possibility, rather than a fact.

## **3. The Need to Require the Midwest ISO to Provide an Annual Report of Its Analysis**

The final proposed change would require the Midwest ISO to provide to both the Planning Advisory Committee and the OMS an annual report of its analysis, including the steps that it took in order to develop a portfolio of projects that spread benefits throughout each sub region. Because this is the first time the Midwest ISO would be implementing a process to plan Regionally Beneficial Projects for cost allocation and because the process of designing a portfolio of projects to spread benefits through each sub region is not yet detailed, it is important that state regulators, Transmission Customers, Transmission Owners and Market Participants be informed of what steps were taken by the Midwest ISO to accomplish this task.

## **V. PROPOSED REVIEW OF THE DETERMINATION OF APPROPRIATE SUB REGIONS FOR COST ALLOCATIONS**

Over the last few MTEP cycles, the Midwest ISO has made informal use of the concept

of fixed geographic planning sub regions (East, West, and Central). However, as introduced in Section II.B.1.a of the Midwest ISO's proposed Attachment FF, the Midwest ISO now proposes to use those fixed geographic sub regions for the purpose of determining the eligibility of a RBP for cross-zonal cost sharing and for actual cross-zonal allocation of RBP costs.

In his affidavit, the Midwest ISO's Jeff Webb offers the following two sentences to explain and support the Midwest ISO's proposal to use established fixed geographic planning sub regions in the proposed RBP eligibility and cost allocation process:

The Midwest ISO chose to utilize the three (3) existing sub regions that were developed as part of the Midwest ISO's existing planning process, which are each of approximately equal load. This decision was made, in part, based upon the difficulty of equitably establishing any more granular regions for RBP cost allocation.<sup>17</sup>

These sentences fall short of explaining the Midwest ISO's proposal or justifying it.

The use of what the Midwest ISO has designated as its Planning Sub Regions may not be the most appropriate division of the footprint for purposes of cost allocations. Generally, the concept for aggregation of pricing zones should be that the pricing zones within each sub region are highly interconnected, and as a result, that which benefits one pricing zone, will benefit all pricing zones within that sub region. However, preliminary studies by the Midwest ISO regarding the level of interconnectedness of pricing zones to combine for the purpose of calculating Loss of Load Expectations tend to indicate that the Planning Sub Regions may not be the best specification of being highly interconnected.<sup>18</sup> Moreover, preliminary results from these studies indicate that more and smaller sub regions may be more indicative of highly interconnected sub regions. In addition, other objectives besides the degree of

---

<sup>17</sup> Webb Affidavit, at 5.

<sup>18</sup> Midwest ISO presentation to the Planning Advisory Committee on September 18, 2006: "Regional Delivery of Market Generation for Reliability LOLE Sub Regions/Zones." The focus of this study is on what should be the appropriate sub regions for the purpose of planning reserve sharing groups. The presentation of this study can be found at [http://www.midwestmarket.org/publish/Document/3b0cc0\\_10d1878f98a\\_-7d6b0a48324a?rev=1](http://www.midwestmarket.org/publish/Document/3b0cc0_10d1878f98a_-7d6b0a48324a?rev=1).

interconnectedness that might be relevant in rationalizing any particular set of geographic subdivisions should be explored.

The use of the fixed geographic sub regions proposed in Attachment FF could contribute to the creation or aggravation of planning seams between these fixed sub regions. Accordingly, the Midwest ISO should be careful to ensure that the robustness of transmission planning and expansions across the fixed sub regions is just as robust as transmission planning and expansion within the fixed sub regions. Indeed, as set out in Section II of these comments, a proper goal of Midwest ISO transmission planning and expansion would be to more tightly integrate the system over the entire Midwest ISO region. In this respect, it is unclear as to whether or not the proposal for fixed sub regions is an interim measure until the Midwest ISO has developed a planning process that is more region-wide in its scope.

The OMS understands that those Midwest ISO studies are preliminary and as such, we do not propose in these Comments to change the proposed tariff specification of Planning Sub Regions. Instead, the OMS proposes that the Commission condition its approval of the Midwest ISO proposed tariff on the Midwest ISO filing with the Commission a report on the appropriate determination of sub regions for the purpose of allocating the costs of Regionally Beneficial Projects. This report should include a study of the following elements:

- The level of interconnectedness of proposed sub regions;
- Other relevant factors to determine proposed sub regions;
- How well the benefits from Regionally Beneficial Projects are spread throughout the proposed sub regions;
- What, if any, transmission projects would be needed to both decrease the number and increase the size of the sub regions; and
- Whether or not the benefits of such projects outweigh their costs.

The report could be made part of the three-year report proposed by the Midwest ISO in Section IV of Attachment FF, at which time the tariff would be amended to reflect any needed

changes in sub regional boundaries. If the Commission adopts the OMS's proposal to allocate costs on a pricing zone basis for the first five years of a project's in-service life, re-examination of the sub region definitions within three years will provide plenty of time to consider this matter.

In addition, the Commission should require the Midwest ISO to thoroughly explain the possible future implications of using fixed geographic planning sub regions as proposed in Attachment FF so that the Commission can assess the justness and reasonableness of that approach.

## **VI. PROPOSED CHANGES TO TARIFF LANGUAGE FOR PURPOSES OF INCLUDING CERTAIN LOWER VOLTAGE FACILITIES**

The Midwest ISO's proposed tariff language concerning facilities less than 345 kV is unclear. Section II.B of the proposed tariff states only that an RBP must "involve" facilities with voltages of 345 kV or higher. The Midwest ISO briefly discusses the voltage issue in its Transmittal Letter and in Mr. Webb's affidavit.<sup>19</sup> With respect to the voltage issue, Mr. Webb's affidavit directly conflicts with the actual tariff language that the Midwest ISO filed in Section II.B. Specifically, Mr. Webb states that "The Midwest ISO believes that a RBP must **be** a 345 kV project or higher to reflect the more regional nature of benefits likely of higher voltage projects."<sup>20</sup> "Being" a 345 kV project and "involving" 345 kV facilities are potentially two different things and the Midwest ISO's filing does not reconcile that difference. The Midwest ISO's only support for its vague voltage proposal is its statement that, "It is recognized by the stakeholders that (as in the RECB I filing) a project may consist of a number of facilities, and that a 345 kV project may also contain lower voltage facilities that in the judgment of the

---

<sup>19</sup> See Midwest ISO Transmittal Letter, at 6 and Webb Affidavit, at 7.

<sup>20</sup> Webb Affidavit, at 7 (Emphasis added).

Midwest ISO form a necessary part of the higher voltage project in order for the project to be implemented in a reliable and efficient manner.”<sup>21</sup>

The OMS agrees with the Midwest ISO’s statement that lower voltage facilities may “form a necessary part of the higher voltage project in order for the project to be implemented in a reliable and efficient manner.” However, the OMS does not agree with the Midwest ISO’s proposal for cost allocation for the lower voltage portion of such projects and propose the alternative tariff language below to both modify the Midwest ISO’s proposed cost allocation for facilities less than 345 kV and to make the policy associated with such facilities clear.

**A. Proposed Changes to Tariff for Inclusion of Certain Lower Voltage Projects.**

II. B. Regionally Beneficial Projects:

Regionally Beneficial Projects are Network Upgrades: (i) that are proposed by the Transmission Provider, Transmission Owner(s), ITC(s), Market Participant(s), or regulatory authorities; (ii) that are found to be eligible for inclusion in the MTEP or are approved pursuant to Appendix B, Section VII of the ISO Agreement after June 16, 2005, applying the factors set forth in Section I.A. of this Attachment FF; (iii) that have a Project Cost of \$5 million or more; (iv) that ~~involve facilities with voltages of~~ are projects made up exclusively of facilities that are 345 kV or higher[1] with voltages below 345 kV where such or are projects that include both facilities of 345 kV or higher and facilities below 345 kV, but not below 100 kV, where such lower voltage facilities are necessary to deliver the highest ratio of benefits to costs from the higher voltage facilities or to better distribute the benefits of higher voltage facilities to more pricing zones within a Planning Sub Region; . . . .

**B. Clarification of What Is Meant by Delivery of the Benefits of Higher Voltage Facilities.**

The concept of “delivery” of the benefits of higher voltage facilities means connecting those facilities to existing lower voltage lines and dealing with any issues that might arise from those interconnections.

---

<sup>21</sup> Midwest ISO Transmittal Letter, at 6.

## **1. Fixing Any Reliability Violations Caused by Installation of Higher Voltage Facilities**

When new higher voltage facilities (345 kV or higher) are put into service, such facilities must be connected to the existing power grid. It is very likely that when this is done, there will be overloads onto some of the lower voltage facilities that will result in additional upgrades being needed to maintain reliability. These additional costs for lower voltage upgrades could be included in MTEP, with costs allocated as reliability projects. However, since it is the higher voltage RBP project that causes these lower voltage facility costs to be incurred, the OMS supports including these costs as part of the total RBP project costs to be evaluated in the benefit to cost ratio test. At a minimum, the costs associated with lower voltage facilities that are included as a part of the costs of the RBP project should be the lowest costs required to maintain the reliability of the transmission system.

## **2. Optimizing the Ratio of Benefits to Costs**

It is possible that the lowest cost lower voltage facilities required to complete a higher voltage RBP project could come from devices added to restrict flows on the lower voltage facilities. Thus, in some instances, the lowest cost solution could result in fewer benefits being added to the system by the RBP project and may result in the RBP project not meeting the RBP inclusion criteria. Thus, adding lower voltage components to complete a higher voltage project is not a simple proposition, rather it is one that could involve choices by the Midwest ISO that maximize the ratio of benefits to costs. The OMS's proposed tariff language clarifies this concept of bringing in lower voltage facilities to deliver the highest ratio of benefits to costs from a higher voltage project.

**C. Adding Lower Voltage Facilities that Distribute Benefits of Higher Voltage Facilities to More Pricing Zones Within a Planning Sub Region.**

In addition to adding lower voltage facilities to deliver the highest ratio of benefits to costs from higher voltage facilities, planned RBP upgrades might add lower voltage facilities that distribute the benefits of the higher voltage facilities to more pricing zones within a planning sub region. The optimal location of higher voltage facilities is not a simple matter, and will heavily depend on existing transmission facilities and locations of loads and generators. The OMS is concerned that the “optimal” location of high voltage transmission facilities may in part result in the Midwest ISO focusing on high density load centers in order to achieve the highest ratio of delivered benefits to costs, and this could result in loads located in pricing zones that are less dense or “off the beaten path” not receiving benefits from these higher voltage facilities. This would not be an issue except under the Midwest ISO proposal to allocate costs to Planning Sub Regions, where customers in pricing zones “off the beaten path” would still be required to pay the sub regional load ratio share of the costs of these projects (as well as the Midwest ISO-wide regional component). In other words, if the Midwest ISO is limited to the strict interpretation of maximizing the ratio of benefits to costs, it may not be able to achieve its proposed planning goal of developing portfolios of projects that tend to provide benefits throughout each sub region. The OMS’s proposed tariff language gives the Midwest ISO added flexibility on the inclusion of lower voltage facilities if needed to achieve the goal of distributing benefits throughout each of the sub regions.

**D. Allocating the Costs of Certain Lower Voltage Facilities**

As should be clear from the OMS’s proposed changes to Section III.A.2.f.i of Attachment FF discussed above, the OMS does not support the inclusion of the costs of lower voltage facilities in a region-wide postage stamp rate. Because lower voltage facilities (100 kV-344 kV)

may be needed to deliver or distribute benefits from higher voltage facilities at the pricing zone level, the costs of such lower voltage facilities should be allocated to the pricing zones receiving these benefits.

#### **E. Exclusion of Cost Allocation for Other Lower Voltage Facilities**

The proposed tariff filed by the Midwest ISO does not propose a cross zonal allocation approach for lower voltage facilities not needed to deliver or distribute benefits of higher voltage projects. Indeed, such lower voltage projects are not included in the proposed planning process and benefit determination set out for Regionally Beneficial Projects in Attachment FF, nor are they included in what the Midwest ISO calls “potential” Regionally Beneficial Projects.

The absence of these other lower voltage facilities is obvious when compared to the Midwest ISO’s proposals for allocating the costs of reliability upgrades, which includes all lower voltage facilities (100 kV – 334 kV) needed to maintain system reliability. The Midwest ISO has failed to explain this omission in its proposal, and the OMS recommends that the Commission direct the Midwest ISO to provide an explanation of why it has not included lower voltage projects in its proposed planning and cross zonal allocations of Regionally Beneficial Projects.

### **VII. ALLOCATION OF COSTS OF RELIABILITY UPGRADES NOT LOCATED IN THE MIDWEST ISO FOOTPRINT**

The Midwest ISO is proposing to amend Section III.B of Attachment FF concerning the allocation of baseline reliability project costs that are to be shared between the Midwest ISO and another transmission provider pursuant to a joint agreement between the Midwest ISO and another transmission provider. Under the Midwest ISO’s proposed cost allocation in Section III.B, such baseline reliability project costs would be allocated using the methodologies accepted by the Commission in its February 3, 2006 and November 29, 2006 Orders, even though those

cost allocation policies were designed for transmission expansions that take place within the Midwest ISO footprint and were not necessarily designed to apply to cost allocation of cross-border baseline reliability projects.<sup>22</sup>

The adoption of the Midwest ISO's proposed tariff language in this regard is premature because the issue has not been vetted through the Midwest ISO's stakeholder process. The issue of allocation of cross border project costs was only briefly discussed in the first segment of the Midwest ISO's Regional Expansion Criteria and Benefits Task Force ("RECB") process in 2005 and no clear methodology was voted on by the stakeholders in that context. Nor was this issue discussed any more thoroughly in the second segment of RECB process in 2006.

Furthermore, the Commission has yet to make a final decision on how the costs of baseline reliability projects that are to be built in one RTO but are determined to provide benefits in the other RTO will be shared between the Midwest ISO and PJM. For this additional reason, it is premature for the Midwest ISO to propose a particular allocation of costs to Midwest ISO transmission customers of baseline reliability facilities built in another Transmission Provider region other than the Midwest ISO.<sup>23</sup>

Under the Midwest ISO's proposed tariff language, the Midwest ISO could share in the costs of new Baseline Reliability Projects from any of the other Transmission Providers in the country if a joint agreement has been reached. Adopting a generic policy for the intra-Midwest ISO allocation of such project costs may have broad implications for Market Participants; yet this important policy has received only limited discussion within the Midwest ISO. For example, allocating costs from ISO New England to utilities located on the western edge of the Midwest

---

<sup>22</sup> *Midwest Independent Transmission System Operator, Inc.*, 114 FERC ¶ 61,106 (2006) and 117 FERC ¶ 61,241 (2006), respectively.

<sup>23</sup> Michigan and Wisconsin are particularly concerned about cross-border cost allocation. Because of its geographical location, most projects built in Michigan will provide cross-border benefits internationally and to other RTOs.

ISO should not be undertaken without a full and thorough evaluation process that involves the Midwest ISO stakeholders.

Accordingly, until stakeholders have had the opportunity to discuss cost allocations of cross border projects more fully and the issues before the Commission regarding the competing Midwest ISO and PJM proposals for cross border cost sharing of reliability expansion methods are resolved, the Midwest ISO's tariff should not be amended to include an intra-Midwest ISO allocation approach for the costs of baseline reliability facilities that are not built within the Midwest ISO. Therefore, the language proposed by the Midwest ISO should be removed from the proposed tariff as shown below:

- B. Sharing of Costs with other transmission Providers: Costs of Network Upgrades that are to be shared between Market Participants, including Transmission Customers, and market participants and transmission customers of other transmission provider organizations shall be allocated as and to the extent provided for in any joint agreements between the Transmission Provider and other transmission provider organizations as filed and accepted by the Commission.

~~1. Allocation of Changes from Other Entities: The Transmission Provider shall allocate costs to Transmission Customers in designated pricing zones that are a result of agreements with other entities:~~

- ~~a. Costs allocation to the Transmission Provider Region for Baseline Reliability Projects shall be allocated to Transmission Customers in designated pricing zones in accordance with Section III.A.2.c of Attachment FF.~~

## **VIII. RECOMMENDATIONS FOR CLARIFICATION OF THE MIDWEST ISO'S NOVEMBER 1 FILING**

The OMS acknowledges that there is a fine art in drafting tariff language that clearly specifies a public utility's allowed and required actions to protect the public interest while still providing sufficient discretion for the public utility to implement the tariff in a reasonable way.

In this regard, the Midwest ISO's proposed Attachment FF language errs on the side of retaining discretion and suffers from a lack of specificity throughout. We also recognize that,

with respect to certain aspects of the tariff, specificity may only be attainable after the Midwest ISO and its stakeholders have obtained some experience in the allocation of costs for Regionally Beneficial Projects. The following discussion represents the OMS's attempt to identify the most significant areas needing more specificity.

**A. Use of System Load Flow Modeling to Estimate Project Benefits and Project Beneficiaries**

The OMS understands that the Midwest ISO intends to use system load flow modeling methods to estimate RBP project benefits and beneficiaries. However, the Midwest ISO's filing provides little or no description of the models that will be used or how the modeling analysis will be conducted. The Midwest ISO's Transmittal Letter states only that the Midwest ISO applied "commonly used production costing software" during the stakeholder deliberation period leading up to the Midwest ISO's development of Attachment FF.<sup>24</sup> The Midwest ISO's filed tariff language states only that the Midwest ISO "will analyze the anticipated annual economic benefits of construction of a proposed Regionally Beneficial Project."<sup>25</sup>

The OMS generally supports the use of state-of-the-art and tested load flow and system modeling software to assess transmission project benefits and the distribution of transmission project benefits. The OMS recognizes that predictions based on complex modeling of future outcomes and operations on an interconnected electric network will not be perfect. We also recognize that there will be many important modeling assumptions and decisions that will directly affect the measure and distribution of predicted transmission project benefits and, hence, the resulting cost allocation. The dependence on modeling decisions is unavoidable under the approach contained in the Midwest ISO's proposed Attachment FF.

---

<sup>24</sup> Transmittal Letter, at 5.

<sup>25</sup> Attachment FF, Section II.B.1.a.

For these reasons, the Midwest ISO's Attachment FF tariff should identify the kinds of system modeling software that the Midwest ISO plans to use. Furthermore, the Midwest ISO's Transmittal Letter should have provided a detailed description of the modeling software that the Midwest ISO intends to use and how the Midwest ISO intends to conduct the analyses using the modeling software.<sup>26</sup>

The OMS recommends that the Commission require the Midwest ISO to identify its proposed system modeling software in Attachment FF. The OMS also recommends that the Commission require the Midwest ISO to provide a complete description on the record of this case of the system modeling software that will be used as well as the manner in which the Midwest ISO plans to use it and the kinds of assumptions that will go into it.<sup>27</sup>

## **B. Measurement of Cost and Benefits**

While Section II.B.1.c of the Midwest ISO's proposed Attachment FF deals with the benefit/cost ratio threshold for determining eligibility of a Regionally Beneficial Project for cross-zonal and regional cost allocation, it fails to define two key concepts in this regard; 1) the time period over which the present value of benefits will be calculated; and 2) whether the reference to cost is only to the up front cost of the project, or to the revenue requirements associated with the project.

---

<sup>26</sup> The IURC is concerned that specification of software would be premature and may unduly constrain the Midwest ISO from using tools that are state-of-the-art or evaluating new transmission technologies that are state-of-the-art. The IURC believes that the Midwest ISO, as an objective and independent organization with greater subject matter expertise is the appropriate organization to assess the analytical tools and the conduct of the analysis. Certainly, the Midwest ISO's processes have been open to state commissions and stakeholders so the concerns voiced by our colleagues seem to be premature.

<sup>27</sup> Michigan and Wisconsin believe that both the OMS and the Midwest ISO have presented viable options for the multiple metric of WGNL to measure benefits. However, Michigan and Wisconsin have serious concerns about the efficiency of the Midwest ISO resource expansion modeling process absent coordination with the affected state(s) to resolve differences in modeling formats and assumptions. Michigan will explain its concern in a separate filing

### **1. Method of Calculating the Present Value of Benefits**

In stakeholder discussions, the Midwest ISO repeatedly referred to using a ten year period for the calculation of APC and Load LMP benefits. However, the Midwest ISO's proposed Attachment FF does not state a specific modeling period. The OMS believes that the tariff should clarify that the present value period for measuring net benefits should be at least 10 years and that the period for measuring benefits will be consistently applied to all projects whether the period is ten years or longer. In addition, the tariff should clarify the method the Midwest ISO intends to apply for the calculation of net present value over the modeling period.

### **2. Directly Estimating Benefits Versus Interpolating Benefits**

In stakeholder discussions, the Midwest ISO referred to its intention to limit the number of direct estimates of benefits from a potential RBP for a given modeling period by using interpolation techniques to measure benefits that accrue between years for which the Midwest ISO will directly estimate benefits using a computer model. The Midwest ISO's proposed Attachment FF and filing is silent on this issue, however. This is of concern because it will be these interpolated benefits that are used to allocate costs among the Planning Sub Regions in the Midwest ISO proposal and to the pricing zones for a period ending five years after a project is in service in the OMS proposed change to the Midwest ISO proposal. In either case, it may not be reasonable to allocate costs using interpolated benefits and without knowing exactly what method of interpolation will be used, the Commission cannot make a determination as to the reasonableness of this approach. The OMS recommends that the Commission require the Midwest ISO to explain the specific interpolation method that it plans to apply for estimating benefits over a given modeling period.

### **3. Defining the Project Costs for Use in the Benefit/Cost Ratio**

The concept of project cost should be defined and specified in Attachment FF. Project

cost should not be limited only to the expected on-line cost of the project. Such a limitation would only capture the return of the investment of the project, but it would not include a return on the investment, fixed Operating and Maintenance expenses or increases in property taxes. The OMS believes that the purpose of the inclusion criteria for Regionally Beneficial Projects is to reasonably ensure (on a forecasted basis) that ratepayers will not pay more in increased costs for transmission than they can be expected to receive in benefits. Thus, the OMS supports defining project cost as the present value of the revenue requirements associated with the project calculated over the same time period for which the present value of benefits is calculated. The Commission should direct the Midwest ISO to clarify the concept of RBP project cost and to revise Attachment FF to specify project cost in terms of revenue requirements.

### **C. Additions and Retirements of Generation, Demand-Side Resources and Other Transmission**

The timing of projects and the measurement of benefits is a difficult issue in the MTEP planning process as it relates to Regionally Beneficial Projects. At the shortest end of the spectrum is a project that is determined to be needed to provide economic benefits in one year and takes one year to complete. If the Midwest ISO is estimating benefits over a ten year period, then its evaluation of benefits will go from year 1 through year 10. At the longest end of the spectrum is a project that is determined to be needed to provide economic benefits in ten years and takes ten years to complete. At this extreme, the Midwest ISO's estimate of benefits would go from year 11 through year 20. It is expected that most high voltage projects will fall somewhere between these two extremes.

While the Midwest ISO may have reliable forward-looking information over the next few years regarding additions and retirements for transmission other than projects under review as Regionally Beneficial Projects (other transmission resources), and for generation and demand-

side resources (non-transmission resources), the reliability of such information decreases as the evaluation period increases further into the future. The Midwest ISO's proposed Attachment FF is silent regarding other transmission and non-transmission additions and retirements that the Midwest ISO will model in the out years of its evaluation of transmission project benefits. Yet we know that Adjusted Production Costs and Load LMP measures of transmission project benefits will be highly impacted by the amount and location of other transmission and non-transmission additions and retirements that are assumed in the modeling. The analysis must be able to identify and isolate the effects on Adjusted Production Costs and Load LMP of the transmission project under study from factors other than the addition of a Regionally Beneficial Project under study.

The OMS recommends that the Commission require the Midwest ISO to provide a detailed description of how future additions and retirements of other transmission and non-transmission resources as well as load will be modeled in the sensitivity analysis process that the Midwest ISO introduces and commits to conduct in Section II.B.1 of Attachment FF.

As a conceptual matter, Regionally Beneficial Projects that are shown by scenario analyses to be highly robust with respect to the amount, time and location of other transmission and non-transmission additions or retirements would be stronger candidates for inclusion in the MTEP. On the other hand, those projects whose benefits are shown in the scenario analysis to be highly sensitive to other transmission or non-transmission additions and retirements would be weaker candidates for inclusion in the MTEP. In any event, the Commission should direct the Midwest ISO to provide a more detailed explanation about how other transmission and non-transmission future additions and retirements as well as load will be treated in scenario analyses.

#### **D. Development of Additional Inclusion Criteria**

Section II.B.2 of the Midwest ISO's proposed Attachment FF provides that the Midwest ISO will continue to evaluate additional transmission infrastructure value drivers and methodologies for evaluation and articulation of those value drivers "to ensure that projects which are effective in facilitating market efficiency, and meeting regulatory policy objectives are supported and pursued." Section II.B.2 envisions that the Midwest ISO may in the future file changes to Attachment FF to propose additional RBP inclusion and eligibility metrics.

The OMS supports the timely evaluation of additional RBP value drivers and the timely incorporation of those drivers into the benefits analysis of Attachment FF. However, the Midwest ISO's proposed Section II.B.2 does not specify a process for the evaluation of potential additional metrics and does not provide a timeframe for the evaluation process or a target for filing the results. The OMS recommends that the Commission both direct the Midwest ISO to continue to meet with its stakeholders in an effort to develop additional measures of benefits and set a time (e.g., 1 year) for reporting back to the Commission the results of this effort.

#### **E. Articulation of a Planning Process for Regionally Beneficial Projects**

The Midwest ISO introduces the concept of a "planning process for Regionally Beneficial Projects" in Section III.A.2.f.iii of its proposed Attachment FF. That section states in part,

"The Transmission Provider shall seek to identify and manage the development of, **as a part of the planning process for Regionally Beneficial Projects**, portfolios of projects that tend to provide benefits throughout each sub region over the planning horizon."

Despite the inclusion of this phrase in the Midwest ISO's proposed Attachment FF, the Midwest ISO does not clearly describe what it envisions for the "planning process for Regionally Beneficial Projects." Section II of Attachment FF purports to cover the "Development Process

of MTEP Projects” including Regionally Beneficial Projects in Section II.B. However, those sections do not make clear the process that the Midwest ISO will use for planning RBPs.

Clear articulation of the Midwest ISO’s planning process for RBPs is important because Section II.B of the Midwest ISO’s proposed Attachment FF defines RBPs, in part, as “Network Upgrades . . . that are found to be eligible for inclusion in the MTEP or are approved pursuant to Appendix B, Section VII of the ISO Agreement after June 16, 2005, applying the factors set forth in Section I.A. of this Attachment FF.”<sup>28</sup> However, the Midwest ISO has provided no explanation about how the “factors set forth in Section I.A” will be used in the planning process for RBPs.

The OMS recommends that the Commission direct the Midwest ISO to engage with its stakeholders to develop and clarify its planning process for Regionally Beneficial Projects for subsequent inclusion in its tariff.

#### **F. The Midwest ISO’s Proposal Introduces the Concept of “Potential” Regionally Beneficial Projects but Does Not Define It**

The Midwest ISO introduces the concept of “potential” Regionally Beneficial Projects in Section II.B.1 of its proposed Attachment FF. Section II.B.1 states,

The Transmission Provider Shall employ multiple metrics and a multi-year analysis including sensitivity analyses guided by input from the Planning Advisory Committee to evaluate the anticipated benefits of a potential Regionally Beneficial Project in order to determine if such a project is eligible for regional cost sharing.<sup>29</sup>

However, Attachment FF neither defines “potential” RBPs, nor explains how the Midwest ISO will identify “potential” RBPs. Similarly, the Midwest ISO does not explain how

---

<sup>28</sup> Emphasis added.

<sup>29</sup> Emphasis added.

the process of identifying “potential” RBPs relates to: (1) the project coordination obligations in Section I.B of Attachment FF; or (2) the project portfolio development obligations in Section III.A.2.f.iii.

The OMS recommends that the Commission direct the Midwest ISO to make the necessary clarifications and explanations in its tariff concerning the concept of “potential” RBPs and how the Midwest ISO will identify “potential” RBPs.

### **G. Conservativeness in the Benefit/Cost Ratio**

The Midwest ISO introduces its proposed benefit/cost ratio threshold in Section II.B.1.c of Attachment FF. That section proposes a benefit/cost ratio that varies depending on a project’s expected in-service date and starts with a ratio of 1.2:1 for a project in year one and increases linearly to 3.0:1 for a project in year ten. For example, a project with an expected in-service date five years from the current planning year would have to show a benefit/cost ratio of 2.0:1.

This benefit/cost ratio threshold will effectively act to limit the number of projects that will qualify as Regionally Beneficial Projects for cross-zonal and regional cost allocation. Furthermore, the conservative nature of this threshold is compounded by the Midwest ISO’s decision in this case to only measure APC and Load LMP benefits of a potential project, rather than the full range of potential project benefits.

The Midwest ISO readily acknowledges the conservatism in its proposed benefit/cost ratio and acknowledges that it is proposing to measure only “a minimum set of benefits”—namely APC and Load LMP<sup>30</sup>

The OMS is not protesting the Midwest ISO’s proposed benefit/cost ratio at this time, as there is insufficient experience with Regionally Beneficial Project planning to make an informed

---

<sup>30</sup> See, Webb Affidavit, at 8 and Transmittal Letter, at 4-5.

judgment on this issue at this time. However, we also recognize and agree with the Commission's statement about the "need for such projects as part of a strong transmission infrastructure."<sup>31</sup> As the Midwest ISO and its stakeholders gain experience with regionally beneficial project planning, including the development of portfolios that provide region-wide benefits and the development of additional measures of benefits, the Commission should require the Midwest ISO to review the appropriateness of its benefit/cost ratio threshold.<sup>32</sup>

#### **H. The Relationship Between Baseline Reliability Project Planning and Regionally Beneficial Project Planning**

The Midwest ISO's proposed Attachment FF contains separate and different planning processes and cost allocation processes for Baseline Reliability Projects and Regionally Beneficial Projects. However, the Midwest ISO's November 1 filing does not justify these differences or explain the rationale for these differences.

With respect to projects that meet both Baseline Reliability Project criteria and the Regionally Beneficial Project criteria, Section III.A.2.g. of the Midwest ISO's proposed Attachment FF states:

g. Treatment of Projects that meet both Baseline Reliability Project Criteria and the Regionally Beneficial Project Criteria: If the Transmission Provider determines that a project designated as a Regionally Beneficial Project also meets the criteria to be designated as a Baseline Reliability Project, such project shall be allocated in accordance with the Regionally Beneficial Project allocation procedures.

However, this provision leaves the relationship between Baseline Reliability Projects and Regionally Beneficial Projects unspecified and does not sketch out a process for integrating a planning process to address both types of needs.

---

<sup>31</sup> *Midwest Independent Transmission System Operator, Inc.*, 114 FERC ¶ 61,106 (2006), at P.90.

<sup>32</sup> Michigan, Wisconsin, and Minnesota add that a lower threshold for measuring the benefit/cost ratio could be used for projects going into service in more than five years if uncertainties about the future were mitigated by a transparent, efficient, and coordinated modeling process. The Minnesota Department of Commerce concurs with this position.

There is widespread recognition that Baseline Reliability Projects may have positive economic impacts and that Regionally Beneficial Projects may have positive reliability impacts. Indeed, in some circumstances, a situation that would merit the construction of a Regionally Beneficial Project - but such a project does not get constructed- may ultimately develop into a situation requiring a Baseline Reliability Project. In some sense, Regionally Beneficial Projects may be considered to be accelerations of eventual reliability projects.

The OMS recommends that the Commission direct the Midwest ISO to explain whether, or how, it intends to evolve its determination of Baseline Reliability Projects and Regionally Beneficial Projects into a single planning process.

#### **I. Potential Contradiction in the Definitions of Regionally Beneficial Projects and Baseline Reliability Projects**

Section II.B.v of the Midwest ISO's proposed Attachment FF states that RBPs are network upgrades that are "not determined to be Baseline Reliability Projects or New Transmission Access Projects." Section III.A.2.g of the Midwest ISO's proposed Attachment FF states that "If the Transmission Provider determines that a project designated as a Regionally Beneficial Project also meets the criteria to be designated as a Baseline Reliability Project, such project shall be allocated in accordance with the Regionally Beneficial Project allocation procedures." These sections could be read to conflict.

Section III.A.2.g envisions that a project could meet both RBP and BRP criteria. Section III.A.2.g is clear that when such a circumstance occurs, the project costs will be allocated in accordance with the RBP cost allocation procedures. However, Section II.B provides that a project can only be a RBP if it is "not determined to be" a BRP. So, what's missing from the tariff is a process for deciding and declaring that a project will be a RBP even if it also qualifies

to be a BRP, because Section II.B.v dictates that a project can't be determined to be both at the same time.

The OMS recommends that the Commission direct the Midwest ISO to make this clarification in its tariff.

#### **J. Identification of “Project Reporting Guidelines”**

Section II.C of the Midwest ISO's proposed Attachment FF introduces the concept of “Project Reporting Guidelines.” That Section states, “All projects subject to the Project Reporting Guidelines of the Transmission Provider shall be subject to such review in accordance with the ISO Agreement and the Transmission Planning Business Practices.” However, the “Project Reporting Guidelines” are not identified or defined in the Midwest ISO's Attachment FF and were not discussed in the Midwest ISO's Transmittal Letter in this docket. The OMS recommends that the Commission direct the Midwest ISO to identify the “Project Reporting Guidelines” and to submit that document on the record of this case with a full explanation.

### **IX. RECOMMENDATIONS FOR THE COMMISSION'S REVIEW OF THE MIDWEST ISO'S FILING**

#### **A. The Midwest ISO's Filing Did Not Result from a Formal Settlement Compromise Process**

Mr. Webb's affidavit characterizes the Midwest ISO's Attachment FF filing as a “compromise.”<sup>33</sup> This characterization is repeated in the Midwest ISO's Transmittal Letter.<sup>34</sup> While Mr. Webb and the Midwest ISO may believe that the Midwest ISO's proposal represents a reasonable balancing of competing stakeholder interests, it does not make the proposal a “compromise.” Rather, a compromise is a settlement of differences in which each side makes

---

<sup>33</sup> Webb Affidavit, at 8.

<sup>34</sup> Midwest ISO Transmittal Letter, at 10.

concessions. The OMS, for example, has actively participated in the stakeholder process leading up to the Midwest ISO's filing, but the OMS did not enter into any settlement process or compromise concerning the Midwest ISO's proposal. Similarly, the OMS is unaware that any other parties have entered into a settlement-type process concerning this matter. In addition, stakeholders never voted on the final Midwest ISO proposal.

Rather, the Midwest ISO filed its chosen proposal using input from the stakeholder process and the Midwest ISO's independent judgment, as is its right. From the OMS's perspective, the Midwest ISO's proposal has both positive and negative aspects. In these Comments, we've tried to identify aspects of Attachment FF that merit changes, and we've tried to develop improvements. We hope that the Midwest ISO's mischaracterization of its filing as a "compromise" would not be allowed to sway the Commission's independent review process in this case.

**B. While the Midwest ISO's Proposal is an Improvement over the Existing Attachment FF, It Is Not Necessarily Just and Reasonable as Filed**

In his affidavit, the Midwest ISO's Mr. Webb states,

In general, there has been dissatisfaction among the Midwest ISO stakeholders regarding the investment in transmission infrastructure that has (or hasn't) resulted from the Midwest ISO's existing transmission expansion pricing policies. The current Network Upgrade procedures tend to result in a "balkanization" of investment decisions because the costs of such RBPs are not necessarily closely aligned with who benefits from such projects. In short, largely because of an inability to align beneficiaries with cost allocations, the existing procedures (sometimes referred to a "License plate" tariff structure because the costs are only borne by the party that constructs the upgrades): (1) do not reflect shared cost and use of such Network Upgrades; and (2) do not sufficiently promote the development of valuable transmission facilities.

...

The Midwest ISO believes that [its proposed] cost sharing policy will help to address the slow rate of transmission investment, as compared to demand, that has been documented in numerous national reports. The proposed RECB II tariff changes provide for a policy that is an improvement over the current license plate pricing policy that does not recognize in its cost allocation the shared use of the grid.

The OMS agrees with these statements. However, just because the Midwest ISO's proposed changes to Attachment FF constitute an improvement over the existing tariff language, it does not necessarily mean that those proposed changes are just and reasonable. The Midwest ISO has a compliance obligation under the February 3, 2006, Order and previous Commission Orders and the Midwest ISO's November 1, 2006, filing does not satisfy those obligations. Accordingly, the OMS recommends that the Commission direct the Midwest ISO to make the tariff changes and clarifications discussed in these Comments.

## **X. CONCLUSION**

Wherefore, for all of the reasons discussed above, the OMS recommends that the Commission direct the Midwest ISO to make the tariff changes and to provide the clarifications described above.

The OMS submits these comments because a majority of the members have agreed to support them. Individual OMS members reserve the right to file separate comments regarding the issues discussed herein. The following OMS members support these comments:

- Illinois Commerce Commission
- Indiana Utility Regulatory Commission
- Iowa Utilities Board
- Kentucky Public Service Commission
- Michigan Public Service Commission
- Minnesota Public Utilities Commission
- Missouri Public Service Commission
- Montana Public Service Commission
- North Dakota Public Service Commission
- Pennsylvania Public Utility Commission
- South Dakota Public Utilities Commission
- Wisconsin Public Service Commission

The Manitoba Public Utilities Board and the Nebraska Power Review Board did not participate in these comments. The Public Utilities Commission of Ohio will file separate comments.

The Minnesota Department of Commerce and the Indiana Office of Consumer Counselor

as associate members of the OMS participated in these comments and generally support these comments.

Respectfully Submitted,

William H. Smith, Jr.

William H. Smith, Jr.

Executive Director

Organization of MISO States

100 Court Avenue, Suite 218

Des Moines, Iowa 50309

Tel: 515-243-0742

Dated: December 21, 2006

#### CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Des Moines, Iowa, this 21st day of December, 2006.

William H. Smith, Jr.

William H. Smith, Jr.

**Statement of the Illinois Commerce Commission  
Concerning the Midwest ISO's  
Proposed 20% Region-Wide Cost Allocation Component**

**I. The Commission Should Not Approve the 20% Region-Wide Cost Allocation Component of the Midwest ISO's Proposal.**

The Illinois Commerce Commission (“ICC”) does not support an arbitrary allocation of any portion of the costs of so-called regionally beneficial transmission projects to all Midwest ISO pricing zones on a load ratio share basis, i.e., via an unsupported region-wide postage-stamp cost allocation. The cost allocation method for prospective new transmission facilities should be based directly and measurably on cost causation and beneficiary pays principles. For this reason, we oppose the Midwest ISO's proposal to include a 20% region-wide cost allocation component for so-called regionally beneficial projects in this case and urge the Federal Energy Regulatory Commission (“Commission”) not to approve that aspect of the Midwest ISO's proposal.

**II. The OMS's Proposed Modifications Are an Improvement Over the Midwest ISO's Proposal, But Do Not Go Far Enough to Justify Keeping the 20% Region-Wide Cost Allocation Component as Part of the Package.**

In Subsections III.B.1 and III.B.2 of its Comments, the Organization of MISO States (“OMS”) proposes some modifications to Section III.A.2.f of the Midwest ISO's proposed Attachment FF concerning the 20% cost allocation component. The OMS's proposed modifications would limit the 20% region-wide cost allocation component to the costs of facilities of 345 kV or greater and only to the costs of projects that are shown to provide measurable benefits to at least one pricing zone in each of the Planning Sub Regions. While the OMS's proposed modifications to Section III.A.2.f of the Midwest ISO's Attachment FF constitute improvements over the Midwest ISO's proposal, they do not go far enough to make inclusion of a 20% region-wide cost allocation component in this case just and reasonable.

### **III. The Midwest ISO's Proposed 20% Region-Wide Cost Allocation Component Is Arbitrary and Has Not Been Supported With Evidence.**

The Midwest ISO's November 1 filing in this case provides very little support for inclusion of a 20% region-wide cost allocation component for so-called regionally beneficial projects. Even the little bit of support that the Midwest ISO offers for its proposal in this regard is contradictory as shown below.

The Midwest ISO's Transmittal Letter states as follows with respect to the 20% cost allocation component.

The region-wide postage stamp portion of project cost was set at 20%. This figure is consistent with the level of postage stamp applied to Baseline Reliability Projects of 345 kV and higher voltage in the initial RECB filing. [footnote omitted.] As described in that filing, the figure of 20% was arrived at with reliance on an analysis of the extent of the use of the Transmission System external to a designated pricing zone when the generation within that zone serves the load within that zone. These results demonstrated in rough terms that approximately 20% relative usage of the system of others by any given designated pricing zone is required for a utility to "self-serve" its load reliably. A similar analysis was presented at one of the RECB II Task Force meetings that showed that when the loads of a single zone are served by all market generators in aggregate (which is more descriptive of typical market operations and therefore more applicable to expansions that improve the efficiency of those market operations) the relative usage of the transmission system of others was at least as high as the 20% figure seen in the original evaluation for reliability purposes. These types of analyses were not intended to be applied as a definitive measure of grid benefits, but rather they serve as useful indicators of the general level of shared system usages and are reflective of an appropriate region-wide postage stamp level.<sup>35</sup>

While the Midwest ISO's Transmittal Letter makes this reference to a generalized analysis of "the relative usage of the transmission system of others" when the loads of a single zone are modeled as being "served by all market generators in aggregate", the Midwest ISO did not include that analysis as an attachment, or otherwise, in its November 1 Filing and does not even provide a usable citation so that the reader can find the analysis that is referred to.

---

<sup>35</sup> Midwest ISO Transmittal Letter, at 8.

Mr. Webb states in his affidavit that, “The proposed allocation policy generally provides for 20% of the costs of a qualified RBP to be allocated to all transmission customers within the Midwest ISO Region on a load ratio share basis.”<sup>36</sup> Mr. Webb also states that, “Load ratio allocations across the entire Midwest ISO cannot provide certainty, however, that all the customers that pay for a transmission facility will necessarily benefit from a specific Network Upgrade.”<sup>37</sup> Mr. Webb argues, nevertheless, that, because of difficulty in conducting targeted analyses and predictions of the distribution of beneficiaries over time, a more generalized cost allocation using a postage stamp rate process is in order.<sup>38</sup>

Notably, Mr. Webb does not attempt to argue that the analysis referred to in the Midwest ISO’s Transmittal Letter concerning “the relative usage of the transmission system of others” when the loads of a single zone are modeled as being “served by all market generators in aggregate” represents some kind of proxy for identifying transmission project beneficiaries. Indeed, Mr. Webb’s affidavit does not even mention the generalized analysis that is introduced in the Midwest ISO’s Transmittal Letter. Similarly, the Midwest ISO’s Transmittal Letter does not attempt to argue that the 20% cost allocation component derives from “a definitive measure of grid benefits.” Indeed, the Midwest ISO’s Transmittal Letter urges that the analysis not be applied in such manner. Rather, the Midwest ISO’s Transmittal Letter states only that the type of analyses that it mentions might serve as “useful indicators of the general level of shared system usages.” Neither the Midwest ISO’s Transmittal Letter nor Mr. Webb’s affidavit attempts to make a connection between a “general level of shared system usages” and the zonal distribution of beneficiaries of particular economic efficiency transmission projects.

Furthermore, neither the Midwest ISO’s Transmittal Letter nor Mr. Webb’s affidavit attempts to

---

<sup>36</sup> Webb Affidavit, at 5.

<sup>37</sup> Webb Affidavit, at 4.

<sup>38</sup> Webb Affidavit, at 4 and 6.

draw a corollary between the reliability context in which the 20% component was included in the RECB I policy package and the economic efficiency context that the RECB II policy is intended to address. In short, the Midwest ISO's proposed 20% region-wide cost allocation component has not been supported by evidence and is arbitrary.

**IV. The Midwest ISO's Proposed 20% Region-Wide Cost Allocation Component Is Not Benefit-Based, Is Arbitrary, and Would Undercut the Midwest ISO's Stated Intention to Develop Additional and More Accurate Benefits Metrics.**

The Midwest ISO's Transmittal Letter states that the Midwest ISO selected Adjusted Production Cost and Load LMP as "the best set of metrics that could, at the present time, be evaluated in a reasonably accurate and repeatable manner and that would measure economic benefits of the expansion."<sup>39</sup> However, the Midwest ISO recognizes that there are other additional benefits metrics that may deserve to be part of any improved protocols for regional beneficial project cost allocation.<sup>40</sup> Indeed, in Section II.B.2 of Attachment FF, the Midwest ISO commits to exploring with stakeholders, and proposing to include in the tariff, additional benefit metrics that will be effective in facilitating market efficiency and meeting regulatory policy objectives. The Midwest ISO's commitment to explore additional measurable benefits metrics and adopt them when they become mature should be applauded and supported. The Midwest ISO's commitment in this regard is consistent with objectives and principles of allocating costs pursuant to measurable benefits. Despite the Midwest ISO's commitment to explore and adopt additional benefits metrics in the future, the Midwest ISO is currently proposing to allocate only 80% of regionally beneficial projects using benefits metrics—in this case, Adjusted Production Cost and Load LMP.

On the other hand, the Midwest ISO's proposal for a 20% region-wide cost allocation

---

<sup>39</sup> Transmittal Letter, at 5.

<sup>40</sup> Webb Affidavit, at 10.

component for economic efficiency projects is not supported by any benefits metric. The only support provided by the Midwest ISO for the 20% region-wide cost allocation component is the vague notion that the distribution of beneficiaries of transmission projects may change over time. Even if an expectation about a changing distribution of beneficiaries over time is well-founded (and the Midwest ISO has provided no evidence on the record by which the expectation can be judged), arbitrarily allocating transmission project costs to all Midwest ISO load is not a good solution for the problem.

Furthermore, the Midwest ISO's proposal to allocate costs to aggregated sub-regions, rather than more granularly to pricing zones that show modeled benefits, already addresses the concern about potential future changes in the distribution of beneficiaries and the concern about difficulty in precisely identifying beneficiaries of long-lived assets. It would be excessive and unreasonable for the Commission to impose an arbitrary region-wide allocation of costs on top of what may already be an arbitrary sub-regional allocation of costs just to address the single issue of possible future changes in the distribution of project beneficiaries.

In the context of economic efficiency projects, imposing a region-wide cost allocation component to account for alleged unpredictable changes in the distribution of beneficiaries over time is arbitrary. It is much more likely that the Midwest ISO will be able to identify the true distribution of beneficiaries of a particular economic efficiency transmission project (or get closer to identifying the true distribution of beneficiaries) by actually trying, prior to inclusion of the project in the regional expansion plan, to identify the distribution of benefits, rather than making an arbitrary allocation. Because transmission is a long-lived asset and the benefits of a new transmission project will flow over decades, it could well be unlikely that the Midwest ISO's modeling will perfectly identify the distribution of beneficiaries over time. However, it is

more likely that the Midwest ISO will be able to develop benefits metrics in addition to Adjusted Production Cost and Load LMP to more accurately identify the future distribution of project beneficiaries if the Midwest ISO is required to strictly tie cost allocations to benefits metrics. If the Commission adopts a policy that includes arbitrary allocations of economic efficiency project costs, the Midwest ISO's incentive to develop more, and more accurate, benefits metrics will be undercut and diluted.

In short, the Midwest ISO is more likely to get the cost allocation right (i.e., accurately predict the level of benefits and the distribution of beneficiaries) by being required to genuinely try to get it right than would be the case if the Commission orders the Midwest ISO to adopt an arbitrary cost allocation policy, like the 20% region-wide cost allocation component, that is almost guaranteed to be wrong (i.e., not match assigned cost responsibility with actual project beneficiaries) and to stay wrong. While the Midwest ISO may still not get the cost allocation right, even if it is ordered by the Commission to try to get it right, the result of that effort would not necessarily be arbitrary. On the other hand, a cost allocation approach that uses an unsupported 20% cost allocation component will likely never be right and will always be arbitrary. The first approach could be found to be just and reasonable, but the second approach can not be.

**V. The Term “Regionally Beneficial Project,” as Defined by the Midwest ISO in Attachment FF, Is a Misnomer and Does Not Ensure that a Project, or Even a Portfolio of Projects, Will Truly Provide Regional Benefits.**

Finally, the term “regionally beneficial project,” as defined by the Midwest ISO in Attachment FF, is a misnomer. There is nothing in the Midwest ISO's proposal for regionally beneficial projects that ensures that a project, or even a portfolio of projects, will truly provide regional benefits. Section III.A.2.f.iii of the Midwest ISO's proposed Attachment FF does

include a planning objective that the Midwest ISO “shall seek to identify and manage the development of, as a part of the planning process for Regionally Beneficial Projects, portfolios of projects that tend to provide benefits throughout each sub region over the planning horizon.” However, because this intention is restricted to each sub region, it is not sufficient to assure region-wide benefits. Furthermore, it states only an intention to spread project portfolio benefits, whereas the proposed 20% region-wide cost allocation component will be a reality once approved by the Commission, and not just a statement of intent.

A sufficient condition for assuring region-wide benefits would include a demonstration that every pricing zone within the Midwest ISO has received measurable benefits from the portfolio of Regionally Beneficial Projects at least equal to the costs being allocated to it, including the 20% region-wide postage stamp cost component. Accordingly, while the 20% region-wide cost allocation component will be a reality if approved by the Commission, the Midwest ISO has not even stated an intention to try to develop truly regionally beneficial projects or even portfolios of projects that will provide regional benefits.

## **VI. Conclusion.**

In conclusion, the Midwest ISO’s proposed 20% region-wide cost allocation component: (1) has not been supported by evidence; (2) is arbitrary; (3) is not benefit-based; (4) would undercut the Midwest ISO’s stated intention to develop additional and more accurate benefits metrics; (5) is aimed at a problem—uncertainty about the future distribution of project beneficiaries—that that Midwest ISO’s sub-regional cost allocation proposal is already aimed at addressing; and (6) highlights the fact that there is nothing in the Midwest ISO proposal for regionally beneficial projects that ensures that a project, or even a portfolio of projects, will produce regional benefits at least equivalent to the proposed 20% region-wide allocation of costs.

For these reasons, we urge the Commission not to approve the Midwest ISO's proposal to allocate 20% of economic efficiency project costs on a region-wide postage stamp basis.

However, if the Commission chooses to adopt a region-wide cost allocation component in this proceeding, the ICC supports the limitations on the applicability of such a component as proposed in Subsections III.B.1 and III.B.2 of the OMS's Comments.