UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission System Operator, Inc.	**)**	**Docket No. ER10-1791-000**

Notice of Intervention and Comments of the Organization of MISO States

Pursuant to Rules 211 and 214(a)(2) of the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rules of Practice and Procedure, 18 C.F.R. §§ 385.211 and 385.214(a)(2), the Organization of MISO States[1] ("OMS") files its Notice of Intervention and Comments in this proceeding.

On July 15, 2010, the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") and a majority of its Transmission Owners made a filing at FERC that proposed to: (1) establish a new category of transmission projects designated as Multi-Value Projects ("MVPs") along with a corresponding cost allocation methodology for such projects; (2) provide for Generator Interconnection Projects ("GIPs") arising within a defined time period to share the costs of Network Upgrades on which they mutually rely; and (3) otherwise retain the cost allocation for Network Upgrades needed for GIPs that was conditionally accepted by FERC

[1] These comments are generally supported by the following OMS members: Indiana Utility Regulatory Commission, Iowa Utilities Board, Michigan Public Service Commission, Minnesota Public Utilities Commission, Missouri Public Service Commission, Montana Public Service Commission, North Dakota Public Service Commission, South Dakota Public Utilities Commission, and Wisconsin Public Service Commission. As more fully explained in the Conclusion, these comments are not supported by the Illinois Commerce Commission, the Kentucky Public Service Commission, the Manitoba Public Utilities Board, Public Utilities Commission of Ohio, and the Pennsylvania Public Utility Commission. Separate comments will also be filed by the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Indiana Office of Utility Consumer Counsel, the Iowa Utilities Board, the Iowa Office of Consumer Advocate, the Michigan Public Service Commission, the Minnesota Public Utilities Commission jointly with the Minnesota Office of Energy Security, the Wisconsin Public Service Commission, and perhaps others.

in its October 23, 2009 Order.[2] The OMS generally supports the proposed revisions that the Midwest ISO filed at FERC in Docket No. ER10-1791-000. The OMS does have specific suggestions on ways to improve the Midwest ISO proposal.

Service of pleadings, documents, and communications should be made on the following:

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I. Background

The OMS has worked on transmission cost allocation throughout its history, including the first round of the Midwest ISO Regional Expansion and Criteria and Benefits Task Force ("RECB") in 2005-2007, and even more diligently in this new round of stakeholder discussions. In late 2008, the OMS decided to take a leadership role on this issue, and it formed the OMS Cost Allocation and Regional Planning ("CARP") effort. The CARP group met monthly from January 2009 through June 2010 under the leadership of Wisconsin Commissioner Lauren Azar. The CARP group received outstanding support from the Midwest ISO's personnel and technical capabilities as it analyzed and discussed these issues. Commissioner Azar also chaired the wider Midwest ISO RECB stakeholder group. While everyone can agree on overarching concepts such as "cost causers and beneficiaries pay", the CARP group realized that there are no easy answers in the transmission cost area. If there were a first best solution that was workable and available, stakeholders across the country would have arrived at it long ago. At the April 2010 CARP

[2] *Midwest Indep. Transmission Sys. Operator, Inc.*, 129 FERC ¶ 61,060, at P 1 (2009) ("October 23 Order").

meeting, the group endorsed its own transmission cost allocation proposal (referred to as the "CARP Proposal"), with the affirmative vote of ten states.[3]

II. Comments

A. Multi-Value Projects and Their Cost Allocation

The current criteria and cost allocation for the two categories of reliability and economic transmission projects do not sufficiently address the growing need for a new type of project needed to address documented public policy mandates or laws passed by the Midwestern state governments, and current and potential changes from the federal area. The OMS supports the creation of the new category of MVPs. These projects are a necessary first step in enabling states to meet their public policy laws and mandates. The development of the MVPs places an even greater importance on transmission planning at the Midwest ISO, and the OMS intends to meet this challenge with enhanced participation in the various Midwest ISO planning fora.[4]

It is important to note that MVPs have benefits other than making the interconnection of renewable resources clearer, faster and less costly for renewable energy developers. MVPs will enhance the transmission system and will better enable the interconnection of all sources of new generation, no matter the technology or location. MVPs will increase the transfer capability of the transmission system, which will allow more access to supply choices to deliver energy to a wider range of load, both within and outside of the Midwest ISO. On average, this should result

[3] A comparison of the Midwest ISO filing and the CARP proposal is included as Attachment 1 to this filing.

[4] In the last year and a half, the OMS states have been involved with the development of the Regional Generation Outlet Study ("RGOS"), offering input on the size and location of wind zones in their states, and offering comments on the RGOS assumptions and methodology as it has progressed. The OMS has, as always, been participating in the MTEP09 and MTEP10 transmission plans through the Planning Advisory Committee and other planning meetings.

in lower delivered energy costs, since transfer capability enhances the system not just for a few or some, but for all hours of the day, every day of the year. The predicted economic benefits of the MVPs can be estimated in terms of load cost savings, adjusted production cost savings, and market congestion benefits.

The cost allocation of MVPs is a very important issue. One of the important decision points in the CARP and RECB processes has been whether to charge—and if so how much—electricity generators. A simple comparison, prepared by the Midwest ISO, of the OMS CARP proposal and the Midwest ISO July 15 proposal, is shown in OMS Attachment #1.

Costs Charged to Generation—Two Differing State Viewpoints

No Charge to Generators: The following states support the Midwest ISO proposal of charging 100% of the costs of MVPs (excepting export and wheel-through transactions) to load: Indiana, Michigan,[5] Minnesota,[6] North Dakota and South Dakota. These states recognize that incorporating a charge to generators may have detrimental market consequences with respect to generators within and outside of the Midwest ISO. These states recognize the tradeoff made in moving from a 20% charge to generators to a zero charge, with the change made in the method for Network Upgrades from a "higher of" method (adopted in the CARP Proposal) to the current proposal, which retains the method in the October 23 Order. These changes should provide greater certainty to new generators regarding their cost structure, which should make the

[5] The Michigan PSC has filed separate comments in this docket. Rather than 100% of MVP costs shared by regional load, Michigan thinks that 80% of the MVP costs should be shared by regional load and 20% by non regional load to more clearly assign costs to beneficiaries. The Michigan PSC suggests that the Commission consider the creation of new and separate MVP planning and cost allocation regions to allow for more equitable sharing to customers for MVP projects that would be roughly commensurate with the benefits they receive.

[6] The Minnesota Office of Energy Security, an associate member of the OMS, concurs with this position.

Midwest a better place to develop new generation projects, and enhance the opportunities for generation developers to engage in long-term contracts. The additional generation constructed will result in greater employment and local and state tax revenues that are part of the public policy laws and mandates of the states.

Additionally, it is very important that some sort of price signal be imposed on generators, as cost causers, to encourage efficient siting decisions in regards to transmission. OMS recognizes that there is more than one method available to accomplish this price signal. OMS (in the CARP proposal) chose one method when it adopted a cost allocation method that charged generators 20% of the costs and included a "higher of" cost allocation provision for new generation. Midwest ISO chose another method when it declined to charge generators for MVP projects but instead retained the method in the October 23 Order, which charges generators 100% of their generator interconnection costs or 90% if the generator interconnection is a 345kV facility or higher. This allows the generators to have a certain level of control over the amount of interconnection costs for which they will be responsible through their decisions on the location of their generation facilities.

Charge to Generators: The following states support a charge to generators: Illinois, Iowa, Missouri,[7] Montana, and Ohio. The Indiana Office of Utility Consumer Counselor agrees with this position. Numerous Midwestern governors and legislatures have enacted renewable portfolio standard ("RPS") laws to address climate change. The governors and legislatures have

[7] The Missouri Public Service Commission ("MOPSC") has voted for and continues to support the "CARP Proposal" compromise position regarding allocating a portion of the cost of the MVPs directly to generators. The MOPSC has previously raised a similar concern in FERC Docket No. ER 10-1069, that "more costs be allocated to generators of electricity benefitting from the cost of transmission upgrades." At this time, the MOPSC is not urging the rejection of the instant tariff filing.

acted on the best interests of their voters who are also electricity consumers; hence, electric load has caused the new transmission projects, and is beneficiary once the projects are constructed. In its CARP process, the OMS agreed that under this principle, load should pay some, but not all, of the cost for MVPs. In particular, CARP judged that some allocation of MVP costs to generators would likely mean that this portion of MVP costs would be paid by the "right load" as generators sought to pass these costs on to their specific customers.

These states note additional economic considerations that are important to the concept of having a charge to generators, which was a part of the CARP Proposal. OMS Attachment #2 contains the Independent Market Monitor's ("IMM") brief report presented June 10, 2010, on the Midwest ISO cost allocation proposal.[8] This analysis was requested several times by OMS staff. The IMM for the Midwest ISO is Potomac Economics, headed by Dr. David Patton. Dr. Patton finds that the Midwest ISO cost allocation proposal does not accord with economic practice, especially with respect to MVPs. As can be seen in Attachment #2, the cost causers of the MVPs are remote generators. Cost causation theory therefore assigns some portion of the costs to remote generation. In addition, this remote generation will be a beneficiary by the ability to sell energy, and possibly renewable energy credits ("RECs"), gain important tax advantages, and generate shareholder profit. From this perspective, as the IMM makes clear, the cost causers of the MVPs are the new generation entrants, not load and not existing generation.

These states, however, take issue with that latter IMM statement. Namely, infra-marginal generators—those with offer prices below the market clearing price—could see some of their

[8] http://www.midwestmarket.org/publish/Document/345da0_1299503ccb2_-7f5f0a48324a/Summary%20of%20IMM%20Comments%20on%20Cost%20Allocation%20Proposal%20from%20June%2010%20Meeting.pdf?action=download&_property=Attachment (viewed September 3 2010). The Commission should note that this exhibit is not part of the Midwest ISO filing. While the IMM, Dr. Patton, agreed with many of the conclusions of the Midwest ISO consultants (LECG), he did proffer some important nuances outlined here.

dispatch curtailed as the MVP overlay reduces congestion and allows more trading, possibly lowering LMPs. Moreover, extra-marginal generation—electricity generators just out of being selected for economic dispatch—may become viable in other parts of the Midwest ISO footprint with an MVP overlay, although they presently do not get dispatched due to congestion issues. This means that some existing generators will benefit by the MVPs being paid by load, and that some existing generators may lose sales and profit. Since there will be some established generators that benefit from the MVPs, according to the beneficiaries-pay principle, those generators should be assessed some charge.

Looking at the issue strictly from the cost causation and beneficiaries pay perspective, the Midwest ISO approach of charging load 100% for the MVP overlay is not in accord with economic principles nor practice, and should be rejected.[9] Some combination of load and generation should pay for the MVP overlay; and the shift factor analysis used for OMS CARP showed that generators should pay approximately 20% of costs. Thus the OMS CARP Proposal contained a 20% charge to generators, both existing and new. This is a sound proposal based on usage of the transmission system and is in accord with economic and engineering principles.

The Midwest ISO proposal benefits all new remote generation whether it is new gas, IGCC, wind, hydro or nuclear power, especially that located in western Midwest ISO. This appears to comply with the October 23 Order to accommodate generation that is friendlier to the environment in terms of emissions impact. Midwest ISO witness Eric Laverty makes this point at Tab H, pages 22 to 24, stating that network upgrades for remote generators like wind will decline from "approximately twenty eight percent (28%) of the cost of a project to approximately

[9] As noted in footnote number 7, supra, Missouri supports a charge to generators but does not, at this time, urge rejection of the tariff. Iowa concurs with this position.

three percent (3%)."[10] With such a favorable tilt towards remote generation, if there are any other major economic concerns with respect to the Midwest proposal, they would be that the large cost concession to remote generation could unintentionally (1) incent more transmission than necessary,[11] or (2) diminish the price signal for locating any type of resource closer to a load sink.

These states believe that for the above reasons, it makes sense, and is just and reasonable, that generators are charged for some portion of the costs of MVPs. While the CARP Proposal chose 20%, these states are open to any similar nominal amount after new analysis, using generation shift factors among other methods, shows what the range of charge to generators should be. These states believe that a charge to generators will send an appropriate price signal to generators to incent an economic construction decision for each generation facility.

B. Rate Design Method for MVP Costs

Charging the costs of the MVPs through time, as expenses are incurred, is an improvement over static cost assignments that have been used in the past. As end users consume electricity, they will pay for the new MVPs in some relation with their usage. The question of whether to use a demand type charge (per MW or kW) or an energy-based charge (per MWH or

[10] Mr. Laverty shows at page 24 for some specific projects the actual value is around ten percent.
[11] Iowa's concern here is that the right amount of transmission be built at the right time. It notes that since interconnecting generators will prefer to have their network upgrade costs classified as part of a MVP (and cost shared) rather than pay for more than 90 percent of those costs themselves, generators will have strong incentive to encourage a pace of build out that may not be justified. In the Board's opinion, the pace of build out should reflect load and public policy needs rather than interconnection requests, and that the most cost effective regional solution over time needs to balance the productivity of additional generation against the additional cost of transmission.

kwh) is important. As the Midwest ISO explains in its filing,[12] it chose an energy charge because a significant portion of the benefits associated with MVPs would occur at times other than peak demand. Ms. Curran states that "a significant portion of the economic value associated with MVPs will be the reduction of production costs, an energy based measure, during the year."[13]

It may be worthwhile for the Midwest ISO and its stakeholders to further explore this issue, and the possibility of a two part charge that incorporates both energy and demand concepts. This combination may capture the year-round effects of the MVPs with the peak investment incentives of existing and future transmission and generation assets. As the economy improves and reserve margins become tighter, the relative split between an energy and demand charge could be adjusted to provide better relative incentives.

Regardless of the outcome of this filing and how the MVP cost allocation occurs, the OMS recommends that the Midwest ISO periodically review the cost allocation and rate design to load and the cost responsibility imposed on generators for their interconnection facilities to ensure that the cost allocation methods are accomplishing the Midwest ISO's stated justifications and do not inadvertently impose unjustified impacts to the systems or customers.

C. Network Upgrades and Reliability and Economic Projects

The OMS supports the cost allocation proposal for Network Upgrades because it will avoid the issue of local loads being overburdened with such charges if they happen to reside in an area where a large amount of generation development is occurring. Maintaining the scope and size of the Midwest ISO is important to all ratepayers in the footprint, in that it allows

[12] Tab G, testimony of Jennifer Curran, pages 12-13.
[13] Tab G, testimony of Jennifer Curran, page 12, lines 16-18.

everyone to share in the benefits of regional transmission planning and broad, regional, wholesale energy markets. By continuing the October 23 Order cost allocation for Network Upgrades, the Midwest ISO proposal keeps a strong siting signal, encouraging generation developers to site in locations where fewer Network Upgrades are required.

The OMS supports keeping the current cost allocation method for reliability and economic transmission projects for now, recognizing that there will be an ongoing investigation into the criteria for economic projects. There appeared to be little support among the stakeholders to change the cost allocation formulas for these types of projects at this time. The injection withdrawal model, which had been considered as a method to allocate costs for all new transmission projects, is more computationally complicated than the Midwest ISO proposal and contained elements which might have been subject to controversy. To apply injection withdrawal to just the MVPs may not have been worth the effort in terms of complexity. The current transmission planning criteria and cost allocation for reliability projects is understood and is working well, although there may be enhancements identified in the upcoming Regional Expansion Criteria and Benefits ("RECB") stakeholder process in 2010-11. The OMS recognizes the need to revisit the criteria for economic projects in the upcoming RECB stakeholder process slated to reconvene this fall.[14]

D. "First Mover/Free Rider" Interconnection Cost Issue

The OMS supports the Midwest ISO proposal to provide a method that addresses Generator Interconnection Projects arising within a specific time period share the costs of Network Upgrades on which they mutually rely. This proposal addresses the free rider issue of

[14] The Michigan Public Service Commission has filed separate comments in this docket. Michigan thinks that both RECB I and RECB II criteria should be revisited.

the first mover paying for upgrade costs while other, later developers would enjoy the use of those upgrades for free. States are familiar with this concept, as many have state statutes or rules regarding retail service line extensions which incorporate a similar sharing mechanism between later interconnecting customers and the first one that pays for a distribution line to be extended.

E. Planning Criteria Considerations

Cost Threshold for MVPs: The Midwest ISO proposes that in order to qualify as an MVP, the capital cost of a project must exceed the lesser of $20 million or 5% of the net transmission plant of the constructing transmission owner. The Midwest ISO shows a list of sixteen MVP Starter projects in its filing. No projects on the list are estimated to cost less than $50,000,000. Five of the projects are estimated between $50,000,000 and $100,000,000, while the majority of them are more than $100,000,000.

The OMS believes that Multi-Value Projects are broad, regional projects that should contain multiple benefits over a wide area within the Midwest ISO footprint. The OMS supports the MVP qualification of 5% or more of a transmission owner's net transmission plant, [15] but believes the cost threshold should be higher than $20 million and suggests a threshold of at least $50 million. The level of the cost threshold should be examined over time to ensure that it is still appropriate. [16]

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[15] The Iowa Utilities Board believes that MVPs should only be broad, regional projects that contain multiple benefits over a wide area within the Midwest ISO footprint. Given the regional nature of MVPs, the IUB is not convinced that an adequate case has been made for a threshold based upon 5% or more of a transmission owner's net transmission plant. The Board recommends that the Commission order the Midwest ISO to address the reasonableness of such a threshold and clarify its likely implications.

[16] The Michigan Public Service Commission has filed separate comments in this docket. Michigan thinks that incorporating a kV threshold rather than a dollar amount threshold better ensures that MVP project costs are not estimated upward to meet the cost sharing threshold. The

Three Criteria for MVPs

The Midwest ISO proposes three criteria for the creation of MVPs. Criterion #1 is for projects that support documented energy policy mandates or laws that generally relate to renewable energy sources. The OMS generally supports this criterion, but various states may separately suggest revisions to specific aspects to further clarify Criterion 1.

Criteria 2 and 3 expand the definition of MVPs for broad regional projects that can show economic benefits. Criterion 2 is for projects that provide multiple types of economic value across multiple pricing zones with a total benefit/cost ratio of 1.0 or higher. Criterion 3 is for projects that address one NERC or regional reliability entity standard, and provide economic value across multiple pricing zones. The costs, benefits, and pertinent benefit/cost ratios for economic projects are to be discussed in the Phase III portion of the current Midwest ISO RECB stakeholder process. This phase is scheduled to begin in September 2010. The OMS supports Criteria 2 and 3 as they are defined in this filing, but suggest that further enhancements to these criteria, and a close look at how they will relate to current and potential changes to RECB I (generally reliability projects) and RECB II (economic projects) criteria is necessary.[17]

There are a number of issues involved with the proposed benefit/cost threshold of 1.0 for Criteria 2 and 3. The costs and benefits can change significantly in just the few years between approval, construction and commercial operation of the project. Arguments for a higher B/C threshold are that costs are sometimes underestimated, and that cost overruns often occur due to

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kV level of a transmission project is examined in greater detail in the MISO planning process than the costs.

[17] The Michigan Public Service Commission has filed separate comments in this docket. Michigan thinks that Criteria 2 and 3 should be eliminated at this time to narrow the MVP definition and revisited in the later RECB I and RECB II discussions.

increases in materials prices or other unforeseen circumstances. Since the estimates are for future projects, there is always uncertainty about how accurate the estimates will be, and so a B/C threshold higher than 1.0 may be appropriate. Using a longer planning horizon will help ensure that the estimated benefits are calculated properly, and provide a better opportunity for proposed projects to be able to pass the B/C threshold.

The OMS notes that a B/C threshold of 1.25 is used for Midwest ISO/PJM Cross Border Projects. On the other hand, a B/C threshold of 1.25 may be so high that no projects can pass the threshold, and no projects are approved and constructed. This situation has occurred with the current REBCII B/C thresholds, and the OMS does not want to see it repeated. Thus, maybe a B/C threshold somewhere in between 1.0 and 1.25 is appropriate; or perhaps there are other criteria that need to be added when considering a project for MVP approval.

Treatment of Projects in the Midwest ISO's MTEP Process

The Midwest ISO stated in its August 25 Planning Advisory Committee that it has no intention of moving MTEP projects from Appendix B to Appendix A on its own. The Midwest ISO expects that all such projects will be at the request of a transmission owner. Recent FERC decisions regarding the right of first refusal,[18] as well as its recent Notice of Proposed Rulemaking on Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities[19], could make the planning process more complicated as multiple transmission owners file for, and vie for, similar or the same transmission projects. The Midwest ISO will need to develop procedures for how this new planning paradigm will work. At a

[18] *Primary Power*, 131 FERC ¶61,015 (2010) and *Central Transmission,* 131 FERC ¶61,243 (2010)
[19] Federal Energy Regulatory Commission, Docket No. RM10-23-000, Issued June 17, 2010.

minimum, states will need to get more involved in the transmission planning processes at their host utilities, at merchant transmission construction projects, and at the Midwest ISO. For example, the OMS is interested in overseeing the need for MVPs, and ensuring the consistency of forecast methods and other types of analyses.

The Midwest ISO states that the approximately $4.6 billion of starter project MVPs are to be approved and constructed over the next ten years.[20] The increased scope of projects and dollars suggests that close state monitoring of this process will be prudent. The OMS suggests that as projects begin to incur costs, the Midwest ISO should develop reports on projects so that stakeholders can see how close the costs are to the original estimates. Given all the transmission and resource planning occurring with RGOS, the Eastern Interconnection States' Planning Council, and the Eastern Interconnection Planning Collaborative, another useful suggestion would be that MVP costs and planning information would be "refreshed" or updated periodically rather than annually (every 2-3 years), or whenever the project is slated to move from one Appendix to another in the MTEP process.[21]

III. Conclusion:

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

[20] Tab G, testimony of Jennifer Curran, page 22, lines 2-5.

[21] In the Iowa Utilities Board's view "just updating MVP costs and planning information," while positive, seems to fall a little short of actually recommending a lag of MVP determination. The Board believes that a 2-3 year or more lag between MVP build outs (once beyond the MVP starter projects identified in Tab J) is warranted to allow parties and states adequate time for analysis and provide for a more deliberate pace of build out.

Indiana Utility Regulatory Commission
Iowa Utilities Board
Michigan Public Service Commission
Minnesota Public Utilities Commission
Missouri Public Service Commission
Montana Public Service Commission
North Dakota Public Service Commission
South Dakota Public Utilities Commission
Wisconsin Public Service Commission

The Illinois Commerce Commission, the Public Utilities Commission of Ohio,[22] and the Pennsylvania Public Utility Commission abstained from the vote on these comments. The Manitoba Public Utilities Board did not participate in this pleading.

The Kentucky Public Service Commission does not support these comments. The Kentucky Public Service Commission does not believe that, considering its situation and location in the Midwest ISO footprint, the benefits of the MVP cost allocation will outweigh the costs. Kentucky is at the southern fringe of the Midwest ISO footprint. Its single utility in the Midwest ISO is relatively small and has a built-out transmission system in which no expansion is anticipated. It is a traditionally regulated, vertically integrated, utility that essentially supplies its own power and reserves and, consequently, participates relatively little in the Midwest ISO markets. Kentucky does not have a legislative mandate requiring that a specific portion of its total power use be supplied from renewable resources. Given its location between the Midwest and the southeast, it is as likely that Kentucky would, in any case, obtain necessary renewable power from resources in states to the southeast as from Midwestern states.

[22] See the Public Utilities Commission of Ohio's Comments to be filed at FERC on September 29, 2010, in Docket No. RM10-23-000, *Transmission Planning and Cost Allocation by Transmission Owning and Operating Pubic Utilities.*

The Minnesota Office of Energy Security and the Indiana Office of Utility Consumer Counselor, as associate members of the OMS, participated in these comments and generally support these comments.

Respectfully submitted,

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Dated: September 10, 2010

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 Billings, Montana, this 10th day of September, 2010.

William H. Smith, Jr.
William H. Smith, Jr.

MVP to CARP Proposal Elements Comparison

Element	OMS CARP	MVP
Charge to Load	80%	100%
Allocation Method For Load	MWh	MWh
Charge to Generator	20%	0%
GIP Network Upgrades	Higher of Generator Charge or cost of Network Upgrades	Generator pays 100% of Network Upgrades below 345kV and 90% of Network Upgrades 345kV and up.
Projects methodology is applied to	Unique Purpose Projects (Public Policy Driven) + RECB II Projects	Multi-value projects (public policy and regional economic benefits)
RECB I	Unchanged from Today	Unchanged from Today
RECB II	Included in new Cost Allocation	Unchanged from Today
Charge to Imports	None	None
Charge to Exports	Yes	Yes

MidwestISO
Energizing the Heartland

SUMMARY OF IMM COMMENTS ON COST ALLOCATION PROPOSAL[1]

Introductory Comments

- The current proposal, which is based on a postage stamp methodology, represents a significant improvement from the prior injection-withdrawal approach because it raises fewer efficiency concerns regarding its effects on the short-term dispatch or long-term investment decisions.

- Before discussing the cost allocation proposal, we wish to indicate that the planning criteria that governs the new transmission investment is very important.

    - If transmission is built economically (where the marginal cost of investment is less than or equal to the marginal cost of the congestion being relieved), the value of the new transmission capability will generally cover most or all of the investment costs.

    - The value of the new transmission capability can be captured by auctioning the newly created FTRs and using this revenue to cover the costs of the investment.

    - However, when excess new transmission capability added, the value of the newly created FTRs will fall (to zero in some cases). This causes most or all of the costs to have to be recovered through the cost allocation process.

    - To the maximum extent possible, therefore, transmission investment should adhere to a requirement that it be economic.

Comments on the Proposed Allocation

- The import and export charges together serve as barriers to full arbitrage between the neighboring markets. This will create inefficiencies in the short-term dispatch of the Midwest ISO and our neighbors.

- Allocating costs to imports may ultimately raise costs for the Midwest ISO's consumers.

    - The amount of costs recovered through an import charge would be based on the total imports (3000-6000 MW).

    - However, this allocation to imports will cause imports not to be scheduled when the price in the Midwest ISO is less than the neighboring region by an amount less than the import charge.

[1] Cost Allocation Proposal under discussion as of June 10, 2010.

- Therefore, this charge should raise energy prices in the Midwest ISO by as much as the amount of the import charge. This price increase would be borne by all of the Midwest ISO's load, which averages more than ten times the import quantity.

- Hence, the import charge may substantially raise costs to the Midwest ISO's consumers compared to allocating the costs directly to load.

- Likewise, allocating costs to exports may have unintended consequences.

  - If the Midwest ISO levies a significant export charge for power leaving the Midwest ISO, our neighbors may do the same.

  - Since the Midwest ISO is a net importer from most directions, the Midwest ISO consumers would tend to be harmed more by an export charge imposed by our neighbors than they would benefit from the costs collected via the Midwest ISO's export charge.

- Therefore, we would recommend the Midwest ISO and its stakeholders revisit the decision to impose of import and export charges.

- As proposed, the generator charge would not affect the short-term dispatch. However, it will lead to higher prices in the Midwest ISO over the long-run.

  - Any capacity-based costs imposed on suppliers will affect entry and exit decisions over the long-run (by slowing entry and accelerating exit).

  - This will lower the Midwest ISO's capacity margins and raise the long-run equilibrium prices in the energy and capacity markets sufficiently to cover the cost.

  - If there is uncertainty regarding these charges over the long-run, it may raise prices by more than the level of the charges (particularly if suppliers are risk-averse).

  - Therefore, we would recommend that the Midwest ISO and its stakeholders revisit the imposition of charges on existing generators.

- Lastly, the one shortcoming of the proposed cost allocation from an efficiency perspective is that the costs of the new transmission are not being allocated more directly to the *new* generation that are creating the demand for the new transmission.

  - This is sub-optimal because it does not allow investors in the new resources to recognize the total costs of their siting decisions.

  - Therefore, they will not have efficient incentives to build their new generation in locations that minimize their total entry costs (including the costs of *both* the generation and transmission).

- However, we recognize that this may not be possible because the MVP investments may be made in anticipation of the new renewable resources and may not be associated with specific renewable investments.