Organization of MISO States
Feedback re: Interregional Cost Allocation Proposals
October 25, 2018

The Organization of MISO States (OMS)[1] appreciates the opportunity to provide feedback on the questions below to MISO regarding the various interregional cost allocation proposals currently under consideration by the Regional Expansion Cost Benefit Working Group (RECBWG). Though there is a difference of opinion about the best path forward on MEP cost allocation between the TO Proposal and Option 1, the OMS Board unanimously agrees that both are preferred to the status quo.

1. **Of the two options for regional cost allocation of interregional economic projects less than 230 KV presented at the September 27, 2018 RECBWG meeting, which option do you prefer? Please provide justification for why this is your preferred option**

<u>TO Proposal Supporters</u>
A majority of OMS Members[2] support the TO Proposal ("TO Proposal Supporters"), and offer the following supporting rationales:

- First, these members think the TO Proposal provides consistent treatment of lower voltage (100 - 229 kV) regional and interregional economic projects and complies with the Federal Energy Regulatory Commission's (FERC) directives to MISO.[3] Under the TO Proposal, lower voltage interregional economic projects connected to the MISO System (i.e., lines wholly within MISO or tie-lines) would be allocated in the same way as regional lower voltage economic project. Both types of projects would be treated as Local Economic Projects (LEPs) and cost-allocated to the situs zone(s) (i.e, the TPZ(s) where the project is located). Lower voltage interregional economic projects not located on the MISO System would be allocated using the Line Outage Distribution Factor (LODF) methodology. This differential treatment of lower voltage interregional projects located outside of MISO is a logical outgrowth of the limits of the LEP category, which requires a situs zone(s) in MISO. It provides a logical, consistent methodology for allocating costs associated with the different categories of lower voltage interregional economic projects.

  The TO Proposal is also consistent with FERC's directives to MISO in the NIPSCO Order and NIPSCO Rehearing Order. Although FERC directed MISO to revise its tariff to make it possible for lower voltage interregional economic projects that meet all the

[1] The Illinois Commerce Commission and the Public Utility Commission of Texas abstained from voting on the matters in this document.
[2] These members include Arkansas Public Service Commission, Iowa Utilities Board, Louisiana Public Service Commission, Minnesota Public Service Commissioner, Mississippi Public Service Commission, Montana Public Service Commission, New Orleans City Council, North Dakota Public Service Commission, and the South Dakota Public Service Commission.
[3] See, *Northern Indiana Public Service Company v. Midcontinent Independent System Operator, Inc. and PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,058 (2016) (NIPSCO Order); order on reh'g, 158 FERC ¶ 61,049 (2017) (NIPSCO Rehearing Order).

requirements to be able to qualify as Market Efficiency Projects (MEP),[4] FERC explicitly declined to mandate that MISO apply its MEP cost allocation methodology to such projects, directing MISO to either confirm that it would use the MEP cost allocation methodology "or to propose tariff revisions to apply a different regional cost allocation method for MISO's share of the cost of such projects."[5] FERC has made clear that it is agnostic as to how MISO regionally allocates its share of the costs associated with lower voltage interregional economic projects, so long as the methodology is just and reasonable.

- Second, and related to the first, these states think that the TO Proposal is consistent with the OMS Seams Policy Statement approved on September 22, 2016 (the 2016 Seams Policy Statement)[6]. In the 2016 Seams Policy Statement, OMS stated that "[e]xcept where no compatible regional cost allocation methodology exists, seams policy costs for transmission solutions should be allocated in accordance with MISO's regional transmission project cost allocation rules and metrics." And where no current MISO regional cost allocation methodology exists, the cost allocation for interregional projects "should be based on an analysis of the projects' benefits."

  These states think that MISO's original interregional proposal, presented at the June 14, 2018 RECBWG meeting, does not comport with OMS's 2016 Seams Policy Statement. Under that proposal, lower voltage interregional projects would not be allocated in accordance with MISO's rules and criteria for lower voltage regional projects. Instead of applying the same cost allocation treatment applied to lower voltage regional projects (i.e., LEPs), the MISO proposal would treat those projects as Market Efficiency Projects (MEP).

  On the other hand, the TO Proposal does apply the same cost allocation rules and metrics to regional and interregional lower voltage economic projects except where no compatible regional cost allocation methodology exists. As mentioned above, under the TO Proposal, the same cost allocation rules and criteria will apply to both regional and interregional lower voltage economic projects connected to the MISO System. Both project types would have to pass a regional and situs zone B/C ratio of 1.25, and both would be allocated to the situs zone(s). However, no compatible regional cost allocation methodology exists for lower voltage interregional economic projects located entirely outside of the MISO System. But in line with the OMS Seams Policy Statement, the TO Proposal would allocate those project costs using an analysis of the projects' benefits (i.e., the LODF methodology).

- Lastly, the TO Proposal would meet one of MISO's primary goals around interregional projects – ensuring a MISO-directed path for all interregional and regional lower voltage economic projects. While some may dispute this point, MISO stated at the September 27,

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[4] NIPSCO Order at P 131.
[5] NIPSCO Rehearing Order at P 51.
[6] OMS Seams Policy Statement, approved on September, 22, 2016, available at http://www.misostates.org/images/stories/Policies/Item_6_OMS_SEAMS_POLICY_approved_9_22_2016.pdf.

2018 RECBWG meeting that it believes the TO Proposal accomplishes that goal. Under the TO Proposal, MISO will be able to identify LEPs and direct their construction.

Option 1 Supporters

Other OMS members[7] support the proposal that MISO offered at the June 14, 2018 RECBWG meeting commonly referred to as Option 1 ("Option 1 Supporters"), and offer the following supporting rationales:

- First, this group believes Option 1 is closest to the original OMS position of a beneficiaries pay approach, in that interregional lower voltage economic projects are allocated to appropriate CAZ(s) comprised of benefitting TPZs based on the Adjusted Production Cost benefit metric (APC B/C).

- Second, this group of states believe the TO proposal is inconsistent in how costs are allocated between lower voltage regional economic projects and interregional economic projects wholly within MISO, versus lower voltage interregional economic projects that are tie lines or wholly within PJM or SPP.

  Under the TO proposal, regional and interregional projects wholly within MISO will first be screened utilizing the APC B/C method to determine if there are benefiting CAZ and then TPZs; however, the cost for the project will only be allocated to the MISO TPZ where the project is geographically located regardless of how many MISO TPZs benefit.

  Alternatively, the lower voltage economic projects that are wholly within PJM or SPP will have costs allocated to all MISO TPZs that are determined to benefit from a Line Outage Distribution Factor (LODF) analysis.

  These states believe that there should be a consistent approach to cost allocation, in that all TPZs who are benefiting should be allocated the cost, not just the TPZ where the project is located. In addition, if one uses the APC B/C test to determine the beneficiaries, then one should use it to determine the cost allocation.

- Lastly, all lower voltage interregional economic projects that are seen as regionally beneficial should have a preset cost allocation and not have to be individually negotiated.

  Under the TO proposal, lower voltage regional and interregional economic projects wholly within MISO that pass the MEP regional B/C test but that do not pass the Local Economic Project (LEP) test (e.g., if the host TPZ does not have a B/C ratio of greater than 1.25) would have to go through the vague MISO "Other" process in which cost

[7] These members include Indiana Utility Regulatory Commissioner, Kentucky Public Service Commission, Michigan Public Service Commission, Missouri Public Service Commission and the Public Service Commission of Wisconsin.

allocation is negotiated among the TOs. A local TO is unlikely to construct an "Other" project where it (and its ratepayers) pay 100% for the project while the majority of the benefits are realized by other parties. This was a main point of the successful NIPSCO complaint case at FERC[8]. Any proposal that does not recognize this is unlikely to be approved by FERC.

Under Option 1, all projects that pass the MEP APC B/C test have a preset cost allocation methodology, with some predictability throughout the interregional and regional transmission planning processes of who will pay for the project.

2. **What priority should MISO give to consistency to the overall cost allocation proposal? (i.e regional vs. interregional, sub 230 kV vs 230 kv+, and across seams)**

<u>TO Proposal Supporters</u>
The TO Proposal Supporters think MISO should first prioritize providing consistent treatment of regional and interregional projects within the same voltage classes (i.e., high voltage (230 kV +) and low voltage (100 – 229 kV)), except where no compatible regional cost allocation methodology exists. These members continue to support the 2016 Seams Policy Statement, and think interregional economic projects should be allocated in accordance with MISO's cost allocation rules and metrics for regional economic project, except where no compatible regional cost allocation methodology exists. Second, these members urge MISO to treat like seams a-like. For example, MISO should strive to apply consistent cost allocation rules along its seams with other regional transmission organizations (i.e., PJM and SPP).

<u>Option 1 Supporters</u>
The Option 1 Supporters agree that consistency is important and Option 1 provides the most consistency. The TO proposal, by keeping all of the costs in the TPZ where the project is physically located, precludes the possibility of a project being subject to the MISO competitive bidding process, which is inconsistent with the other >230 kV MEP cost allocation solutions.

3. **What are the risks associated with each of the options?**

<u>TO Proposal Supporters</u>
The TO Proposal Supporters think the risks associated with MISO's original proposal are greater than those posed by the TO Proposal. In particular, the risk association with misaligning costs and beneficiaries:

> In MISO's September 14, 2015 Cost Allocation Issues Whitepaper, MISO stated that "[i]f the 345 kV voltage threshold is lowered, a more granular cost allocation method is one alternative that could be considered to assure the costs of these projects are allocated

[8] FERC EL13-88-001.

roughly commensurate to those who benefit."[9] MISO also identified four conditions that aid beneficial transmission development:

1. A robust business case for the project,
2. Policy consensus around what issue is being addressed,
3. Clearly defined cost allocation methods that closely align who pays with who benefits, and
4. Cost recovery mechanisms that reduce financial risk.[10]

In these two proposals the controversy is over the size of the area that will be allocated costs. Option 1 runs a higher risk of failing to allocate costs closely with those who benefit than the TO proposal does. CAZs vary in size to a greater degree than the TPZs do.[11] This heightens the risk of allocating costs for similar projects in different zones differently. The more granular nature of the LEP allocation reduces this risk and more appropriately allocates the cost.

Option 1 Supporters

Options 1 Supporters believe the TO Proposal has greater risk and violates the beneficiaries pay principle put forth in OMS comments to MISO in November 2017.

- First, under the TO proposal, lower voltage interregional economic projects wholly within MISO may not have the proper allocation of costs and benefits to all of the proper TPZs who are receiving a benefit. Economic projects wholly within MISO and on the seam will assess more costs to that TPZ and not to the other TPZs or CAZs that could benefit from the project. It is unfair to the local TPZ to pay all the costs of a lower voltage interregional economic project wholly within MISO if there are other benefitting areas, potentially creating "free riders" (getting benefits of the project without paying for it). Interregional projects by nature have widespread benefits to multiple zones (to both zones in MISO and zones outside MISO), so assuming only one MISO zone has benefits of the project seems illogical.

- Second, there is no reason to have a regional B/C test if the benefits of the project are not being allocated regionally. If the projects are shown to be beneficial to the entire region, costs should be allocated to all MISO zones that benefit, not just to the local Transmission Pricing Zone (TPZ) where the project is located.

- Third, the TO proposal introduces an extra hurdle for lower voltage interregional economic projects wholly in MISO. Projects have to pass both a regional 1.25 B/C test AND a local TPZ 1.25 B/C test to have a defined cost allocation. Any projects that only pass the regional 1.25 B/C test would have to go through negotiations amongst MISO

[9] Cost Allocation Issues Whitepaper, September 14, 2015, at 12, available at https://cdn.misoenergy.org/20151118%20RECBTF%20Item%20XX%20Cost%20Allocation%20Issue%20Summary%20Paper%20clean90105.pdf.
[10] Cost Allocation Issues Whitepaper at 3.
[11] Compare CAZ1, which includes several states and numerous TPZs, to CAZ8, which includes a single state and TPZ.

stakeholders to be approved for cost recovery through the ill-defined MISO "Other" process.

Under Option 1, all interregional projects that pass a regional 1.25 B/C test have a defined cost allocation. No regionally beneficial interregional economic projects wholly within MISO have to go through the MISO "Other" process and are cost allocated based on who benefits.

These inconsistencies in how regional and interregional projects within MISO vs within PJM or SPP are cost allocated makes the TO Proposal less likely to be approved and more likely for the Option 1 proposal to be approved.

Addendum

In addition to the feedback provided above with respect to the TO Proposal and Option 1, the OMS Board discussed a November 2017 OMS proposal ("OMS Alternative") at its Annual Meeting on October 25, 2018. The OMS Alternative[12] would have lowered MEP voltage thresholds to 100kV and allocated 100% of MEP costs to beneficiaries at a more granular level given current modeling constraints.

Though this option is not one currently under discussion as part of the MISO RECB stakeholder discussions, the Iowa Utilities Board, Indiana Utility Regulatory Commission, Michigan Public Service Commission, Missouri Public Service Commission, and the Public Service Commission of Wisconsin wish to communicate to MISO and stakeholders that they continue to prefer the majority OMS Alternative, *only as it applies to interregional projects*, to either the TO Proposal or Option 1. These OMS members believe that both Option 1 and the TO proposal are imperfect, and prefer that costs are assigned with granularity to beneficiaries to the extent appropriate computer modeling can show that result without false provision.

Another component the OMS Board would like to raise for consideration is a commitment in the ultimate proposal filed at FERC to evaluate the effectiveness of the allocation methodology in three years and consideration of revisions if the goals of these changes are not being realized.

[12] The Illinois Commerce Commission abstained and a minority position was supported by the Minnesota Public Service Commission, the North Dakota Public Service Commission, and the South Dakota Public Service Commission.