



Cost Treatment for Regionally Beneficial Projects

RECB TF Work

- Electric Reliability & Electricity
Staff Subcommittees

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○ Need for Cost Sharing

- General dissatisfaction with the investment in transmission infrastructure that has (or hasn't) resulted from the existing pricing policies
- Current practice maintains balkanization of investment as it does not align effectively with who benefits, with who pays
 - Existing License plate tariff structure
 - Does not reflect shared cost and use
 - Does not promote valuable transmission because of inability to align beneficiaries with cost

○ Regulatory Context

- The FERC has ordered Midwest ISO and other RTO / ISOs to establish cost allocation policies to:
 - Reduce barriers to transmission investment
 - Better reflect grid usage
 - Improve market efficiency

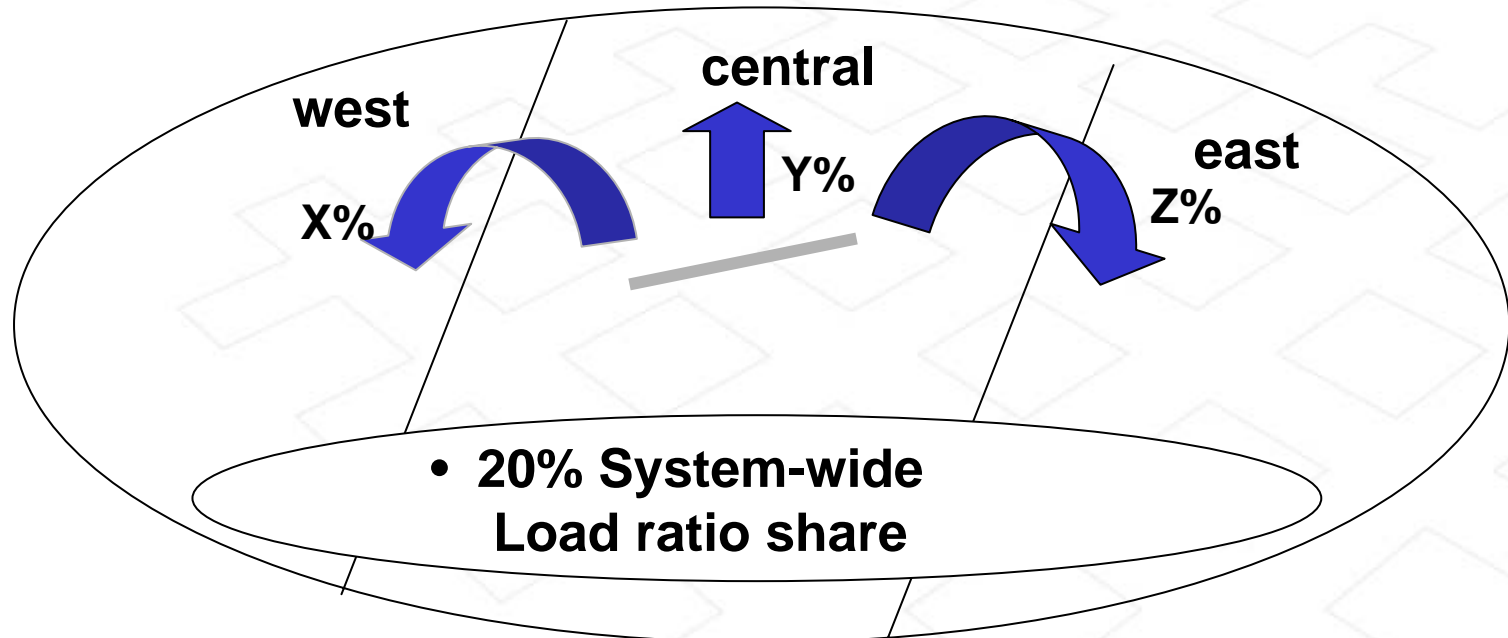
○ General Policy Objectives

- Construct a cost allocation policy in which it is clear that the customers who will benefit from an investment will pay for that investment
 - Reality of assessing benefits for a 40-year investment causes natural concern for planners' ability to forecast with precision which customers will benefit
 - It is probable that the customers that benefit will change over time as investments in generation resources vary geographically

Balance Beneficiaries Objectives with Uncertain Realities

- Payment by beneficiaries argues for a targeted analysis of who those beneficiaries will be throughout the life of the investment
 - Uncertainty of shifting beneficiaries argues for more generalized allocations to reflect these anticipated changes in beneficiaries via a postage stamp-type rate
 - Load ratio allocations across the entire Midwest ISO cannot provide certainty that all the customers that pay will benefit
- To address these concerns a hybrid of the two approaches, which allocates some cost to the entire footprint and some cost to each of three sub regions, was developed and is proposed

Blended Allocation of Costs



- 20% “postage stamp” and
 - Electrical characteristics for reliability, or
 - 80% to Sub Regions based on share of benefit metric (X,Y,Z)
 - Load ratio share within each Sub Region

○ The “Postage Stamp” Component

- MISO provided data to support the idea of a “Postage Stamp” Component to the cost sharing formulation:
 - Showed that for any single zone serving its own load, 20-30% of system use is external
 - Showed that for a range of actual Proposed Projects from MTEP 05, there are LMP benefits to be had by **all** Zones totaling more than costs
 - Demonstrated that the “reach” of the benefits is much greater than can be seen with the sub-regional flow impact of the LODF matrix
- Therefore subregional alone is not enough to capture benefits

Other Consensus Building Thresholds

- 345 kV Projects only (initially)
 - Projects of a more regional nature
 - Conservative to start - monitor
- \$5 M and higher projects
 - Materiality
 - Uncertainty of cost impacts of policy

Other Consensus Building Thresholds (Cont'd)

■ Sliding Benefit / Cost Threshold

- Rises with further out service date
- Reflects risks of underestimated costs, harder to predict benefits
- 1.2:1 for one year out projects, up to 3.0:1 for 10 year out projects – linear scale
- Level is matter of judgment – compromise with relaxing of total project cap concept

○ Key Components of RECB I

- Generation Interconnection Projects:
 - 50/50 cost sharing between customer and pricing zones, with one year contractual commitment to MISO NITS customer
 - Without contract, direct assigned
 - Zonal 50% piece is shared as per Baseline Reliability (Blended Postage Stamp/Subregional)
 - Customer 50% piece is participant funded, or charged as a monthly fixed charge to recover return and O&M, at option of Transmission Owners

○ “No Loss” Protection

- Sub Region is protected from cost allocation where **either** of these two metrics shows no positive benefit
- No allocation would occur to the sub region
- Total project benefit would not include the weighted metric (70%+30% which could be positive) for that sub region

○ Current Issues

- Certain Midwest ISO Transmission Owners do not agree they should receive an allocation
 - Feel they have no need nor benefit will commensurate with cost
 - Costs are today, benefits are anticipated and accrue over time
 - It is fairly easy to exit the Midwest ISO
 - As a first tier company, market access is unimpeded but obligations do not exist

○ Key Issues of Compromise

- 345 kV cut-off – too high?
- B/C threshold – too high?
- Benefit metrics – too limited / not right?
- PC metric – too conservative?
- LMP metric – too aggressive?
- PS allocation – too broad?
- Targeted allocation – too imprecise?
- Sub regions – too large/not needed?

○ Three Year Assessment Period

- Tariff includes provision to review and assess impacts of policy at 3 year period (minimum)
- Goal of project portfolios that tend to balance benefits within a Sub Region
- Review for unduly discriminatory impacts on customers, TOs or market participants (i.e. rate and funding impacts)
- Policy elements that need revision to better meet objective of efficient market

○ Adjustments to Value Metrics

- Recognize there are other value drivers besides production cost and LMP
- Midwest ISO actively working to develop methods to evaluate and demonstrate such values
- Key potential benefit metrics include:
 - Generation Reserve Capacity Reductions achievable through better interconnected market
 - Fuel diversity impacts, reliability and National Security impacts, National and State energy policy goals, Regional and State economic development goals

○ Future

- Experience in administering this cost sharing tariff may lead to regulatory filings to adjust its provisions
- Monitor cross-border, technical conference, pricing treatment of existing facilities, and reassess as necessary



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