



Organization of MISO States

# Cost Allocation – Regional Examples

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# Several Key Questions

- What is the starting point?
- What costs are eligible for regional allocation?
- Who will we allocate costs to?
- What basis will we use to allocate the costs?

# The Starting Point

- Individual utilities finance construction within the service area.
- Independent transmission companies don't change that picture.

# What Costs to Allocate?

- Voltage
  - MISO uses 345 kV
  - PJM uses 100 kV
  - SPP (proposed) uses 345 kV
- Materiality
  - MISO uses \$5 million
- Needed for Reliability or Economic benefit

# What Projects Have Economic Benefit?

- Measurement components:
  - Production cost
  - Locational marginal price (LMP)
  - A blend
    - MISO uses 70% Adjusted Production Cost + 30% Gross LMP
    - PJM uses 70% Production Cost + 30% Net LMP
    - SPP (proposed) uses Adjusted Production Cost
- Benefit - Cost Ratio:
  - PJM uses 1.25
  - MISO uses 2.0 to 3.0 (depend on in-service date)
  - SPP (proposed) uses Balanced Portfolio

# Who Pays?

- Competing principles
- Cost causation
  - Reasons for construction
  - Deficiencies in zone
- Economic benefit
  - Transmission zone
  - Sub-region
  - Entire region
- No losers tests

# OK, then, How Much?

- Ratemaking is not an exact science
- MISO:
  - 20% to entire region; 80% based on sub-regional benefit share
- PJM:
  - Above 500 kV to entire region
  - Between 100 – 500 kV, flow-based
- SPP (reliability projects):
  - 33% to entire region
  - 67% to beneficiary zones

# Take Home Questions

- Are different allocation methods appropriate for reliability and economic projects?
- How can these methods be adapted for cross-border projects?
- Do these concepts make sense in a future where load and generation are intentionally separated?
- Does the complexity of these methods argue for a different approach?