Highlights of RECB Phase I Proposals

Transmission Owner Generator Allocation Proposal

TO's Proposal

The proposed Transmission Owner Generator Allocation method allocates 90% of the costs to the purchase power agreement purchaser and 10% though a postage stamp rate across the Midwest ISO footprint, when the delivery to load that sinks in Midwest ISO. The TOs argue that this proposal will keep rates to consumers as low as possible by requiring a generator to have a long-term PPA before assigning the cost of network upgrades to the PPA-Purchaser. Assigning the costs directly to the PPA-Purchaser also eliminates any potential risk or uncertainty premium the generator may include in the power price if the network upgrades costs were assigned directly to the generator.

The TOs also argue that allocating 100% of the costs of network upgrades associated with generator interconnections within the Midwest ISO footprint by a postage stamp rate is unreasonable due to the fact that there is no out-rate to certain regions such as PJM, and no common energy market between the regions. As such, the TOs argue that no costs should be paid by the Midwest ISO load under the Midwest ISO Tariff for transmission upgrades to deliver to load external to the Midwest ISO.

The TOs further argue that their proposal continues to provide a price signal to generator developers. The network upgrade charges will serve as an input to the PPA-Purchaser's decision making process. Network upgrades for generator interconnections that are beneficial to the customer will get built while upgrades that are not beneficial will not get built. This proposal allocates costs to the beneficiaries of transmission network upgrades for generator interconnection. The PPA-Purchasers who benefit will pay.

Specifically the TO proposal contains the following features:

1) 90% of the cost of Network Upgrades associated with a generator interconnection is allocated to the PPA-Purchaser when:

    a) The Network Upgrades are 345 kV and above;
    b) The Network Upgrades are used to serve load within the Midwest ISO footprint;
    c) The PPA-Purchaser signs a contract with Midwest ISO (at the time the generator interconnection agreement is signed) committing to pay for the Network Upgrades needed to deliver the PPA-Purchaser's new generation to the PPA's Midwest ISO load;
    d) The PPA is for the total plant output or a portion of the plant output; and
    e) 100% of the PPA must sink to a Midwest ISO load [load must be purchasing Midwest ISO firm transmission service (network or point-to-point) with a sink on the transmission reservation in the Midwest ISO]

2) 10% of the cost of Network Upgrades associated with a generator interconnection are allocated on a postage stamp basis across the Midwest ISO to all Midwest ISO pricing zones under the Midwest ISO Tariff when:

    a) All of the conditions under Part (1) are met.
    b) When a PPA exists pursuant to Part 1e above, 10% of the costs associated with the portion of the plant output covered by the PPA is allocated on a postage stamp basis.

3) 100% of the Network Upgrades associated with a generator interconnection are allocated to the PPA-Purchaser when:

    a) The Network Upgrades are under 345 kV and are used to serve load within the Midwest ISO Footprint; or
    b) The Network Upgrades are not used to serve load within the Midwest ISO footprint.
    c) The PPA-Purchaser will sign a contract with the Midwest ISO (at the time the generator interconnection agreement is signed) committing to pay for the Network Upgrades needed to deliver the PPA-Purchaser's new generation.
    d) The PPA may be for the total plant output or a portion of the plant output.

4) 100% of the cost of Network Upgrades associated with a generator interconnection are allocated to the generator when:

    a) The PPA-Purchaser does not execute a contract with the Midwest ISO to commit to paying the cost of the Network Upgrades; or
    b) A PPA does not exist.

Iberdrola Renewables

Iberdrola Proposal

Iberdrola supports regional cost allocation through a postage stamp approach and would recommend this approach in place of the current LODF approach. Specifically, Iberdrola proposes that network upgrades required for generator interconnection with costs above the Midwest ISO's current $5 million threshold could be allocated using the following approach for this first phase of RECB changes:

1) Projects under 345 kV – 50% of the cost to the generator(s) requiring the upgrade for interconnection, 50% postage stamp allocation to load within the Midwest ISO planning zone(s) where the upgrade is located;

2) Projects 345 kV and over – 50% of the cost to the generator(s) requiring the upgrade for interconnection, 50% postage stamp allocation to load within the full Midwest ISO footprint.

Iberdrola states that the allocation of network upgrades between generators and transmission owners needs future consideration either through Phase II of this effort, or in some separate forum. Iberdrola suggests exploring the concept of identifying and developing Renewable Energy Zones.

Integrys Energy Group

Integrys Proposal

Integrys states that it is not promoting a specific solution to the Phase 1 LODF cost-allocation issue, but instead has outlined several alternative solutions along with observations to hopefully promote healthy debate within the RECB Task Force. Some of the points that Integrys makes include:

> Within the Phase I Environment: Existing rules result in cost allocations that were not originally contemplated and require immediate attention. However, it is equally important to recognize that future, yet unidentified, cost allocation issues will be inextricably influenced by the solutions identified during Phase I.
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> LODF should be replaced by Postage Stamp allocation: Integrys argues that Transmission reinforcements within the single economic dispatch environment of Midwest ISO provide reliability and economic benefits to all LSEs within the market. Recognition that all transmission expansion will at some time provide benefit to all LSEs, even if that benefit is 10 years into the future, supports a postage-stamp approach to cost allocation.
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> LODF should be replaced with Direct Assignment: Direct assignment to beneficiaries is extremely difficult, if not impossible, to perform. Beneficiaries also change over time and the ability to forecast beneficiaries is heavily influenced by modeling input assumptions. Direct assignment to generators results in free ridership issues, resulting from the lumpy nature of transmission expansion. Even if generators reimburse first-movers as they interconnect, the first-movers will shoulder a significant financial burden until other generators interconnect, with no guarantee that others will actually follow. The financial liability placed on the first-movers will negatively impact ability to obtain financing (or state regulatory approval), resulting in cancellation or delay of the project itself.
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> Replace LODF with a Blend: One possible solution that the task force should consider is a blend of postage stamp and direct assignment. Ultimately, a blend may represent a reasonable compromise between the immediate drivers of a transmission expansion project while recognizing both the short and long term beneficiaries through a postage stamp.

Wolverine/ITCs Proposal

Wolverine/ITC Proposal

Wolverine/ITCs notes that it is likely the case that the generator interconnection problems which sparked the Phase 1 discussion could be solved with projects that are designed to integrate large amounts of remote generation and that the most effective approach should be projects that are built to address future growth instead of planning on case-by-case, generator-by-generator basis. Wolverine/ITCs states that the proposal is crafted in a way that addresses both of these issues.

Wolverine/ITCs essentially support the premise that higher voltage transmission lines have broader benefits to the region and as such, costs should be shared on a wider basis as voltage increases. On the other hand, any transmission project or upgrade also has some benefit to the local zone. Therefore, the proposal is an attempt to recognize and balance the benefits to the local zone and the region. The companies are not steadfast on the specific allocation numbers provided, but believe they are illustrative of the increasing regional benefits of higher voltage transmission. The following percentages represent the amount of costs regionally shared to the Midwest ISO footprint load while the remainder can be allocated through various outlets including, generator pays, sub regional, line outage distribution factor, or a blending of one or more.

- 300 kV and above – 100%
- 200-300 kV – 66%
- 100-200 kV – 33%
- 100 kV and below – 0%

Wolverine/ITCs point out that the metrics that are currently used to evaluate the economic benefits of transmission expansions, adjusted production cost and load locational marginal pricing, do not adequately quantify the incremental value of the infrastructure. The planning process and ultimate cost allocation structure should encourage long term, forward looking development of generation resources and related transmission development. Today, most generation development is being pursued on an individual basis and consequently, may not necessarily result in the most efficient transmission planning to take into account expected development in the area.

Finally, the ultimate proposal adopted by the RECB Task Force should be crafted with the best interest of the entire Midwest ISO footprint in mind with the understanding the each utility service territory is unique and will be impacted differently. In the event a particular transmission owner can show unique harm or other need to deviate from the proposal that is ultimately created by the RECB Task Force, the transmission owner still retains the right to request FERC approval of a unique Attachment FF that will address those unique needs.

Wind on the Wires (WOW)

WOW's Proposal

WOW supports changing the 50% LODF aspect of cost allocation first in order to address the disproportionate costs facing transmission owners like Otter Tail Power in a timely fashion.

WOW believes this is only a piece of the cost allocation for large regional transmission projects serving generator interconnection that must be addressed in order to effectively support transmission upgrades necessary to meet renewable energy standards.

WOW believes that moving in the direction of allocating a greater amount of the costs for network upgrades to generation, either by charging the generator or the PPA holder, is neither effective in supporting transmission upgrades needed for RES compliance, nor does it adequately implement the principle of beneficiaries pay. Instead, WOW supports regional cost allocation of large regional upgrades through a postage stamp approach. WOW argues that regional cost allocation is critical to the development of a robust transmission grid, one that can allow access to new generation including renewable sources, and also serve load growth, support competitive wholesale markets, and improve reliability.

WOW believes that network upgrades required for generator interconnection with costs above the Midwest ISO's current $5 million threshold should be eligible for this type of generator interconnection cost sharing approach. WOW suggests the following approach for this first phase of RECB changes:

- Projects under 345 kV – 50% of the cost to the generator(s) requiring the upgrade for interconnection, 50% postage stamp allocation to load within the Midwest ISO planning zone(s) where the upgrade is located

- Projects 345 kV and over – 50% of the cost to the generator(s) requiring the upgrade for interconnection, 50% postage stamp allocation to load within the full Midwest ISO footprint

Madison Gas and Electric Company (MGE)

MGE Proposal

MGE supports modifying RECB 1 to assign what is the LODF piece to the generators that locate in remote areas that lack the load supporting such generation development. Specifically, the RECB 1 formula would then become:

1. 50% assigned to generator
2. The remaining 50% is allocated based on size of the transmission upgrade(s):
    a. Greater than or equal to 345 kV, 20% is postage stamped and the balance is assigned to the generator
    b. If less than 345 kV, the remaining 50% is assigned to the generator

The assumption is that those costs assigned to the generator would be reflected in the costs of energy from such projects. The generator can recover these costs through power purchase agreements to reflect the true costs of the decisions to locate and develop the resources where it did. Developers always have the option of locating closer to adequate transmission capacity (or load areas) to keep their total costs lower.

This is appropriate because energy-takers (buyers) theoretically have a choice from which projects to buy. If buyers view these prices unfavorably, they have and should exercise their alternatives. Similarly, generation developers have a choice as to whether or not to develop in remote areas. In cases where states have mandated a certain choice that forces generation be located in remote areas, and if these high-cost options need to be pursued, the ratepayers in those states should pick up the costs. The ratepayers in states that do not make such decisions should not be assigned these costs.

Free ridership can be addressed by requiring all subsequent generators that connect to the new lines pay a pro rata share of the costs, with those payments used to refund the original generator that paid for the transmission upgrades. MGE states that Wisconsin has been using such an approach for distribution line extensions for many years.