

Following the Cost-Allocated Dollar

As the CARP work group turns to cost allocation issues, it is likely to be beneficial to all negotiators to take a step back and relearn the basic of cost allocation. A good way to obtain this knowledge is to observe how dollars flow under the current cost allocation structures employed within the Midwest ISO. The goal is for negotiators to learn the answers to these basic questions: who pays, and how do costs get paid?

In general, it makes sense to think of this from three different perspectives (although there may be more – you should not feel limited): the Generator, the Transmission Operator, and the Load Serving Entity. In this exercise, parties will assume that a new transmission line has been proposed and is about to be built at a cost of approximately \$500 million. Our goal will be to identify how will each of these parties (generator-TO-LSE) would pay for these costs (if at all) and how much. We will have to make a number of assumptions, of course, to make this simple enough, but afterwards, we should have a clearer understanding of how the money flows.

Put another way, we often talk about concepts such as “postage stamping” and “license plating” but it might not be clear how those concepts actually work. That is, if this hypothetical \$500 million were to be 100% postage stamped in MISO, what are the mechanics of this? How does this actually get billed and to which parties? For how long?

The specific scenarios we will address are below. Examples will be developed that provide the answers to the questions below for each scenario. Be prepared to bring your own ideas to the table for the group to work through together.

Scenario 1: Generator Interconnection with no Power Purchase Agreement

Assume that Generator (“G”) is proposing a new wind farm in a remote location. G will need transmission at 345 kV at a total cost of \$100 million to maintain reliability upon interconnection. G will be a merchant player in the market. The generator is located in a zone other than ATC or ITC.

Scenario 2a: Generator Interconnection with Power Purchase Agreement

Assume that Generator (“G”) is proposing a new wind farm in a remote location. G will need transmission at 345 kV at a total cost of \$100 million to maintain reliability upon interconnection. G will sign a power purchase agreement for 100% of its output. The generator is located in a zone other than ATC or ITC.

Scenario 2b: Generator Interconnection with Power Purchase Agreement in ATC or ITC zone

Assume that Generator (“G”) is proposing a new wind farm in a remote location. G will need transmission at 345 kV at a total cost of \$100 million to maintain reliability upon interconnection. G will sign a power purchase agreement for 100% of its output. The generator is located in an ATC or ITC pricing zone.

Scenario 3: Baseline Reliability Project with one Constructing Transmission Owner

Assume that a Transmission Owner is proposing a new transmission line to meet NERC standards. The Transmission Owner will need transmission at 345 kV at a cost of \$100 million to meet the standards. The transmission is being constructed entirely within a single zone

Scenario 3b: Baseline Reliability Project with two Constructing Transmission Owner

Assume that a Transmission Owner is proposing a new transmission line to meet NERC standards. The Transmission Owner will need transmission at 345 kV at a cost of \$100 million to meet the standards. The transmission will be constructed in two pricing zones.

Scenario 4: Regionally Beneficial Project

Assume that a Transmission Owner has identified a regionally beneficial transmission project at 345 kV and a total cost of \$750 million. The benefits for this project are \$500 million for the west region, \$100 million for the central region and \$50 million for the east region.

Additional assumption for all scenarios: affected Transmission Owners have a 20% Fixed Charge Rate.

Questions to Consider (and add to):

1. Under the currently approved tariff, who will build the new transmission facility?
2. Who will pay for constructing this transmission line, how and when? How are these costs recovered and from whom?
3. Who will “own” the transmission line?
4. Who will pay for the operating and maintenance expenses? How are these and other costs recovered and from whom?
5. If the project is a generator interconnection project, what rights does the generator have to use this transmission line? Do they change over the 40 year life of the line?
6. If the project is a generator interconnection project, what happens if, in five years, a second generator locates a second wind farm and uses the same transmission facility to connect its generation? How does this change the allocation of costs (if at all)?
7. If a project is eligible for postage stamp allocation, how are those costs recovered? How does the postage stamp component get allocated?
8. If a portion of project costs are eligible for allocation using Line Outage Distribution Factor Methodology, how are those costs specifically allocated and recovered?
9. If a portion of project costs are eligible for allocation using the RECB II methodology (simply stated, proportional to benefits), how are those costs specifically allocated and recovered?
10. How does a load serving entity receive the costs for the transmission? Do they show up in LMP or as a separate rate?
11. Does the manner by which load serving entities receive costs for the transmission vary by where an LSE sits in the Midwest ISO footprint?
12. Do loads outside Midwest ISO see costs for new transmission, and if so how?
13. Do the answers to these questions change if the Generator and/or the Transmission Operator are merchant
14. Do any of these answers change under the new Generator Interconnection Protocols the Midwest ISO is preparing to file at FERC