

**PUBLIC CONSUMER ADVOCATE SECTOR
DECEMBER 2008 HOT TOPIC: COST ALLOCATION**

The Public Consumer Advocate Sector appreciates the opportunity to present the Board with its thoughts on cost allocation. We are at a point when current and future policy directives (state and/or federal) are likely to have an impact on transmission construction that is equal to or greater than the impacts arising out of reliability and/or economic considerations. We believe it is necessary to look at the process from a footprint wide perspective and determine what best serves the needs of the footprint as a whole. Our sector's responses to the cost allocation questions are couched in this overarching viewpoint because we do not want the needs of the whole footprint to be lost in the discussions of who pays.

A. Should costs of new transmission facilities be allocated to market participants outside the zone in which the transmission facility is constructed?

The answer to this question is yes, part of the costs should be allocated outside the zone, except in cases where it can clearly be demonstrated that all current and future benefits remain within the pricing zone. In general, anyone who benefits from the new facilities should help pay for those facilities regardless of their physical location.

B1. If costs are allocated outside the transmission pricing zone in which the transmission facility is built, how should eligibility for the cost sharing be determined?

Cost sharing should be based on the relative benefits received by the participating parties. Of course this is much easier said than done. Nevertheless, it must be recognized that when generation is built a long distance from load due to cost advantages and/or policy decisions, the majority of the consuming beneficiaries will not be found in the local pricing zone(s). Determination of cost sharing should be done in an independent and transparent manner, considering costs and benefits in all affected pricing zones.

B2. What principles and methods should guide transmission cost allocation?

The general principles are relatively straightforward; costs should be paid by the cost causers and the beneficiaries. Generators and load are clearly identifiable as direct causers and beneficiaries of transmission improvements in general. Problems arise in cost allocation because these two groups are dispersed with respect to both geography and time. The methods used for cost allocation need to recognize that the pool of beneficiaries expands over time and cost allocations need to be made accordingly.

B3. Should transmission upgrade costs only be allocated to loads or should other types of market participants also share in the cost? Why?

If the upgrades only have to do with improving flows, the costs should be allocated to load. However, if the upgrades are related to generation interconnections, generators must be allocated a share of the costs.

B4. How should transmission planning be related to transmission project cost allocation?

The planning process itself should identify the reasons (causes) for a specific project. Whichever group or groups "caused" the project should be the core of the beneficiaries of the project and therefore responsible for the costs of the project. If there are beneficiaries outside the identified "causers," they should also be responsible for a portion of the project costs.

C1. What other issues need to be discussed at future transmission cost allocation discussions?

All of the issues that are being discussed in the MISO context will need to be discussed in the context of planning a national grid.