

OMS Workgroup Staff Response: Interregional Planning and Cost Allocation between MISO and SPP

(Oklahoma City on April 12, 2012) Due 4/27/12

OMS Workgroup staff appreciates the opportunity to provide follow up comments to the April 12, 2012 meeting between MISO and SPP and other parties. First, staff applauds MISO's meeting with SPP, and urges MISO to diligently meet with all of its seams neighbors soon in order to best develop interregional cost allocation and planning agreements by the April 2013 FERC Order 1000 compliance deadline.

PLANNING ELEMENTS:

- "Joint future"

OMS staff encourages MISO to set up a planning process where interregional and regional projects are studied using the same futures, not just a single "joint future" as is currently being done. While OMS staff applauds both MISO and SPP for working on a single "joint future" in their current planning cycles, OMS staff urges MISO to develop a process for interregional planning utilizing the same breadth and depth of futures MISO currently uses for regional planning.

Further, MISO says in its transmission planning principles

Interconnection-wide modeling efforts (EIPC) shall be leveraged as mutually agreed to and appropriate to minimize duplicative modeling efforts.

OMS staff support MISO interregional planning to be informed by the EIPC and similar efforts, but would not support using models and inputs from processes such as EIPC as a substitute for the interregional planning process involving MISO stakeholders, including OMS staff, as envisioned by FERC. Further, OMS staff would appreciate further details about the above principle, including: (1) what is meant by "leveraged"; and (2) what parties are coming to a "mutually agreed" use of EIPC efforts.

- Interregional Planning Stakeholder Advisory Committee (IPSAC) – annual meeting and state role

Both MISO and SPP have indicated a willingness to have state regulators have a role / be represented on IPSAC. OMS staff supports this decision, and will push for a greater role for state regulators than just "being represented". Any role state regulators play in regional planning should also be played by the same state regulators in interregional planning.

Further, OMS staff recommends that IPSAC, or any similar group reviewing interregional projects or needs, meet at least annually if not more often. SPP's principles explicitly state meeting "annually or semi-annually", whereas MISO's principles only recommend an "annual process". OMS staff supports the SPP proposal of IPSAC meeting no less than annually and perhaps more often.

While OMS staff has not finalized any proposal involving interregional meetings, OMS staff suggest the consideration of the following concepts for interregional stakeholder meetings: (a) a process similar to the current MISO Subregional Planning Meetings, which are held quarterly; or (b) a biannual meeting

process, with one meeting focused on identifying needs among interregional parties, followed by a second meeting identifying solutions, including potential transmission solutions, to solve interregional needs.

- Interregional Planning Process vs. Regional Planning Process

There was much discussion at the April 12, 2012 meeting of the following bullet from SPP's presentation:

Projects must first be proposed in each region's regional planning process

There was a concern that a project would have to be proposed in at least one region's planning process before it could be considered in an interregional planning process, or that projects that come about through the interregional planning process would have to go through another full cycle of regional planning to be approved. OMS staff shares these concerns, and support a process in which interregional projects are not mandated to be reviewed through a regional planning cycle and approved by the MISO Board. This may require an adjustment to the current planning process and either business practice manual or tariff language changes regarding how interregional projects would go through the "regional planning process".

At this time OMS staff is not certain of how interregional projects will be included in the MTEP process. Possible but not finalized OMS staff recommendations include: (a) an entirely separate process of interregional planning where the projects go directly to the MISO Board for consideration, perhaps in a different timing cycle than the current 18-month MTEP cycle; and (b) interregional projects considered within the current MTEP cycle of projects.

- Regions should consider projects proposed by the other region

SPP's principles included:

Failure to propose or select a project within each region's planning process does not constitute a dispute under the terms of the JOA, including:

- **Disagreement on needed transmission projects**
- **Disagreement on perceived benefits of a project**

OMS staff are concerned about these SPP principles, in that staff believes that interregional projects selected by the interregional planning process should at least be considered within both parties' regional planning process, or any other process utilized by a region to consider interregional projects. OMS staff requests further explanation of what is meant to "propose" a project.

MISO's principles on this matter include:

Evaluation of interregional transmission facilities may take more than one planning cycle to move from identification to approval.

- OMS staff acknowledges the possibility of an interregional project requiring multiple MTEP cycles in order to reach MISO Board consideration of the project, but does not support a mandatory “two MTEP cycles” rule for an interregional project.

Some states’ OMS staff do support, and some states’ OMS staff do not support, both SPP and MISO defining “interregional project” to include projects wholly within one region.

Some states that do not support the expanded definition do not wish to go beyond the FERC Order 1000 requirements at this time, and believe it is possible to reach an informal agreement on the situations in which projects wholly located within one region are needed in another region. These same states are also concerned that these types of projects are “mandated “to be built, not just “considered”.

Some states that do support the expanded definition have been frustrated by regional planning processes that appear to lead to a “demilitarized zone” of sorts along the seam between two regions, where a region does not build any project located near the seam in order to prevent ‘free riding’. This strategy leads to areas on or near the seams not receiving the same benefits of interregional transmission projects as areas in the middle of a region. The hope would be that changing this definition would lead to more projects built in this “demilitarized zone”.

- Separate seams planning group

In order to fully discuss seams issues, some OMS staff supports the creation of a MISO stakeholder group similar to SPP’s “Seams Steering Committee” to give MISO stakeholders an opportunity to discuss interregional issues outside of the IPSAC process. In order for this workgroup stakeholder group not to be burdensome, OMS staff supports this group meeting quarterly, and that seams issues continue to be discussed at other stakeholder groups, such as RECB and PAC, as appropriate. Other Staff believe MISO already has quite enough stakeholder groups and that stakeholders merely need to bring the seams issues to the agendas of those groups.

- Which projects to consider as interregional

MISO suggests in its principles only considering as interregional transmission facilities those that “materially benefit neighboring planning regions”. Some states in OMS staff support this conclusion, preferring that MISO and its neighbors focus on solving big problems, and not focusing on every small project that could be possibly be considered, fearing this could overwhelm the planning process. Some of these states believe that small projects could be dealt with informally, as discussed above.

Other states in OMS staff may be more comfortable with the concept of a benefits floor for interregional consideration, without setting a floor for voltage level or potential project cost.

- “Multiregional joint planning studies”

OMS staff is supportive of the concept of planning studies between two or more regions, and applauds MISO for including this concept within their principles

- What benefits to use for interregional planning and Project Types

SPP RSC's Brattle Group proposes explicitly stating that any and all benefits used in the regional planning process also are used for interregional analysis. MISO includes a similar principle.

OMS staff states support this similarity. There is a concern that if there are two sets of benefits – one set for regional planning, another set for interregional planning – that there could be an incentive for gaming, in terms of whether a project is classified as interregional or regional, either in order to get the project built or to achieve the most favorable cost allocation methodology.

Another benefit of a region using the same benefits for regional and interregional planning is that it increases the likelihood that the areas of a region closer to the seams will have roughly the same amount and types of projects as other areas of the region.

OMS staff wishes to ask some questions how about what benefits are used for interregional planning and the related methodology. Does each region use their own benefit types in order to calculate the benefits on their side of the seam? Is there one set of benefits used for interregional planning only, perhaps a combination of the two (or more) regions' benefits? If Region A proposes a project and is supposed to do an evaluation of benefits in Region B, will they have sufficient information to analyze the benefits in Region B?

OMS staff has additional questions about project types used in any future agreement with SPP. While there are cross border BRP and MEP projects with PJM, SPP does not at first glance appear to have project types that neatly fit into those categories. Does MISO staff have any proposals on how to classify interregional projects to coordinate with SPP?

Additionally, while OMS staff appreciates MISO proposing to look at projects that have one type of benefit on one side of a seam and another type of benefit on the other side of a seam, OMS staff would request more details on how such a project would be analyzed and be recommended for consideration or built using an interregional planning process.

There does appear to be a need for both sides of a seam to agree on benefit types used. If one region on a seam uses a paltry amount of benefit types and the other region utilizes a wide variety of benefit metrics, the region with the wide variety of benefit types could end up paying for a greater portion of the project.

COST ALLOCATION ELEMENTS:

- What benefits to use to determine cost allocation
- Formula – PJM or another

SPP Stakeholders at the joint meeting expressed concern about utilizing the existing MISO-PJM cross border formulas for BRPs and MEPs, stating they had not participated in the development of such formulas. OMS staff would support MISO being willing to develop formulas from scratch with SPP, and acknowledge that SPP's Highway Byway cost allocation methodology may cause different categories of projects to be considered than the existing MISO-PJM cross border categories.

Further, the SPP RSC Brattle Group principles support much flexibility in common project categories, though they also express support for eventually moving to a formulaic approach.

OMS staff wishes to express support for some of the metrics used in the existing PJM cross border formulae, such as utilizing a load flow benefit metric to determine benefits for a reliability project. OMS staff is also supportive of utilizing different metrics or different combinations of metrics in developing any potential formulae with SPP.

- Different benefits to different regions

Both the Brattle Group report and MISO suggest the possibility of projects where the benefit type to each region is different (for example, SPP seeing reliability benefits while MISO sees economic benefits from the same project). OMS staff tentatively supports this position of flexible project types, with the caveats below.

MISO suggests in their principles sharing costs for projects having multiple benefit types:

For this type of project the distribution of costs to each planning region will be based solely on congestion and fuel savings.

For other project types, MISO suggests utilizing a formula, as in the PJM cross border project types, to allocate costs.

OMS staff is willing to consider the first situation for projects receiving different benefit types on different sides of the seam, wherein the benefits used to allocate cost were different than those utilized to qualify the project through the interregional planning process.

With that being said, OMS staff is more willing to consider these flexible project types for BRPs and MEPs, and would need more information about flexible project types before being able to fully support the concept.