

**26<sup>th</sup> Annual Bonbright Center  
Conference**

***“Integrating Stakeholder  
Interests for a Brighter Energy  
Future”***

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# **Incorporating State Views into RTO Stakeholder Governance**

- **RTOs recognize that State utility commissions have a vital role in assuring safe, reliable and efficient wholesale electricity service.**
- **RTOs have carefully considered stakeholder input from organizations representing multiple states.**
  - The Organization of Midwest ISO States (“OMS”)
  - Organization of PJM States, Inc. (“OPSI”)
  - The New England Conference of Public Utilities Commissioners, Inc. (“NECPUC”)

# Example of OMS Input in Midwest ISO Governance

- In December of 2003, the OMS issued Principles for Allocating Transmission Upgrade Costs to propose equitable cost allocation for Generation Interconnections and other Network Upgrades.
- The Midwest ISO studied these Principles and worked with the OMS and its other stakeholders to draft a proposal for Reliability Network Upgrades that was filed with FERC on 10/7/05; it was approved by FERC on 2/3/06.
- The Midwest ISO has continued to work with the OMS on cost allocation for Economic Network upgrades, and a compromise proposal will be filed with FERC on 11/1/06.

# Participant Funding Proposal for Reliability Projects

- **80% of the costs of Baseline Reliability Projects (“BRP”) allocated to the zone that benefits; 20% of costs allocated to all zones, for Network Upgrades of a 345 kV and higher voltage class.**
- **Costs allocated on a Line Outage Distribution Factor (“LODF”) for each existing transmission branch in the Transmission System, after the addition of the required Network Upgrade.**
- **Interconnection Customers responsible for 50% of the costs of required Network Resource Upgrades; Interconnection Customers eligible to receive FTRs made feasible by the capability created by the Network Upgrade.**

## Reliability Projects (cont.)

- FERC conditionally approved a proposed Excluded Projects List based on the planned projects being in the Midwest ISO's existing 2005 Transmission Expansion Plan ("MTEP 05").
- Generator Interconnection agreements filed on or after February 5, 2006 must conform to Attachment FF; however on 8/31/06, the Midwest ISO sought to apply Attachment FF to certain existing generation interconnection agreements.
- FERC ordered the Midwest ISO and its stakeholders to address the issue of cost allocation for Regionally Beneficial Projects ("RBP") in a timely manner and submit a a proposal for cost allocations by 11/1/06.

# Midwest ISO *Proposed* Economic Project Network Upgrade Filing

## 1. MTEP Project Identification:

- a. MTEP will identify BRPs needed for reliability by applying ERO Planning Criteria
- b. MTEP will also identify RBPs in addition to BRPs, by screening and reviewing projects for value, and testing benefits against specified economic criteria for inclusion in MTEP as RBPs (“Inclusion Criteria”).
- c. Projects that are identified as RBPs will apply the cost allocation applicable to RBPs notwithstanding the fact that there may be reliability benefits also identified for such projects.
- d. BRPs will not be delayed due to incomplete analyses of a project for economic benefits.

# Inclusion Criteria:

## 2. Inclusion Criteria (Benefit Metrics to determine if a RBP is included in MTEP for construction and cost sharing) will include multiple metrics:

a. Weighted Gain/No Loss ("WGNL") =  $\Sigma$  (70% APC sub region i + 30% Load LMP Payments sub region i )

- "APC" = Production Cost, adjusted for changes in cost of purchases and sales
- Load LMP Payments calculated as (Load bus LMP \* busload) sub region i

b. Savings from both  $\Sigma$  APC and  $\Sigma$  Load LMP must >0 for all zones in aggregate for the Project to be included in MTEP subject to cost sharing

# Analysis of Inclusion Criteria:

- c. Total benefit determined by summing calculated WGNL benefit only for sub regions for which both  $\Sigma APC > 0$  and  $\Sigma \text{ Load LMP} > 0$ .
- d. Midwest ISO next uses a threshold Benefit/Cost ratio ("B/C") that is a linear function of service date year referenced from the year of the approved MTEP report identifying the need for the project.
  - The minimum threshold B/C ratio will begin at 1.2:1 for in-service dates one year from MTEP report, and increase linearly to 3.0:1 at year 10.

# Project Thresholds:

**3. Thresholds for Designation and for Regional Cost Allocation of RBPs. Projects not so designated are not required to be completed.**

- a. 345 kV voltage cutoff for allocation of economic benefits
- b. A materiality \$5M cutoff for project cost for allocation
- c. Inclusion Criteria is met

**4. Projects that do not meet the thresholds and criteria for Midwest ISO-wide cost sharing as a RBP, may still be endorsed by Midwest ISO for localized cost recovery under Attachment O of the Midwest ISO Tariff, on the basis of localized benefit, where review of such localized benefit analyses indicates value.**

## Consideration of Other Metrics

5. **Midwest ISO staff will continue to evaluate and explore with owners and stakeholders additional transmission infrastructure value drivers (and methods for evaluation and articulation of these value drivers) and adjust Inclusion Criteria for transmission projects from time to time. Additional eligible metrics will include quantifiable economic effects to include, but not be limited to:**
  - 1) Generation Reserve Capacity Value of Transmission
  - 2) Societal benefits of economic development
  - 3) Shareholder value of asset investment and utilization
  - 4) National security value of a less vulnerable infrastructure

## Monitoring:

**6. Midwest ISO will monitor effects of B/C threshold, Include Criteria metrics, and the allocation method for any unduly discriminatory consequences.**

A) Midwest ISO will file a report of process, and any proposed modifications to the tariff, within 3 years of an initial FERC approved Order regarding cost treatment of RBPs.

B) Midwest ISO will seek modifications of metrics where new metrics are measurable and reproducible, and after vetting such proposed changes with the Planning Advisory Committee and the OMS.

# Cost Allocation:

## 7. Allocation Metric for RBPs

- a. 20% Postage Stamp + 80% Sub regional Postage Stamp; Where Sub Regions are defined as Midwest ISO Planning Regions (3 regions of approx equal load)
- b. 80% Sub regional share of project costs is divided between the three Sub regions based upon relative benefits to each Sub region.
- c. Benefits to a Sub region are determined as the WGNL Inclusion Criteria metric summed over all of the zones within the Sub region.

# **New Midwest ISO Challenges:**

- **The Midwest ISO will continue to work with the OMS and its stakeholders on new initiatives, including, but not limited to:**
  - Reliability and Economic Network Upgrades impacting neighboring RTOs
  - Developing effective Ancillary Services Markets
  - Complying with FERC's 9/26/06 Resource Adequacy Requirements order re: Energy Only Market.