

129 FERC ¶ 61,172
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Sudeen G. Kelly, Marc Spitzer,
and Philip D. Moeller.

Midwest Independent Transmission System Operator, Inc. and ALLETE, Inc.	Docket Nos. ER09-1726-000 ER09-1727-000 ER09-1728-000
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ORDER CONDITIONALLY ACCEPTING PROPOSED TARIFF REVISIONS,
INTERCONNECTION AGREEMENT AND AGENCY AGREEMENT

(Issued November 24, 2009)

1. In this order, the Commission addresses three filings associated with ALLETE, Inc.'s (ALLETE) planned acquisition of certain high-voltage direct current transmission facilities (HVDC Line) from Square Butte Electric Cooperative (Square Butte) (HVDC Acquisition). For the reasons discussed below, the Commission accepts ALLETE's filing in Docket No. ER09-1726-000 of a new Schedule 2-HVDC (Reactive Supply and Voltage Control from Generation or Other Service for HVDC Transmission Customers) to its Open Access Transmission Tariff (OATT), to govern the provision of reactive power and voltage support services over the HVDC Line. We also accept ALLETE's Notice of Suspension of sections 2 through 35, Schedules 1, 3 through 6, and Attachments A through I of its OATT, effective upon the closing of the HVDC Acquisition, as requested.¹ We conditionally accept the Midwest Independent

¹ ALLETE and Midwest ISO (as applicable) request that the filings in Docket Nos. ER09-1726-000, ER09-1727-000 and ER09-1728-000 be effective upon closing of the HVDC Acquisition, which is currently anticipated to be December 31, 2009. Because the requested date is not fixed, ALLETE and Midwest ISO (as applicable) must submit a compliance filing in the above dockets that will list the actual closing date as the effective date for the agreements and tariff revisions proposed in the respective filings. This compliance filing should be submitted within ten days from the date of the closing of the HVDC Acquisition. Additionally, if the HVDC Acquisition does not close, ALLETE and Midwest ISO (as applicable) must submit a filing in the above referenced dockets

(continued...)

Transmission System Operator, Inc. (Midwest ISO) and ALLETE's filing in Docket No. ER09-1727-000 of a proposed Agency Agreement and associated revisions to Midwest ISO's Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff) to provide transmission service over high-voltage direct current facilities, effective upon the closing of the HVDC Acquisition, as requested, subject to a compliance filing. Finally, we conditionally accept ALLETE's proposed Interconnection and Operating Agreement between itself and Square Butte (Interconnection Agreement) submitted in Docket No. ER09-1728-000, effective upon the closing of the HVDC Acquisition, as requested, subject to a compliance filing.

I. Background

2. ALLETE proposes to buy from Square Butte an existing, 465-mile, 250 kV HVDC Line that runs from Center, North Dakota to Duluth, Minnesota.² Currently, ALLETE and Minnkota Electric Cooperative (Minnkota) are the only two customers that take transmission service from Square Butte over the HVDC Line. ALLETE and Minnkota each purchase 50 percent of the output from Square Butte's Unit 2 Milton R. Young coal-fired generator (Young 2), and each has reserved 227.5 MW of capacity on the HVDC Line to serve its native load with its share of Young 2 energy. ALLETE's merchant function has reserved the remaining 45 MW of capacity on the HVDC Line, which it uses to deliver generation it purchases under long-term contracts from wind farms in North Dakota.³

3. ALLETE is proposing to purchase the HVDC Line from Square Butte for \$71.5 million and restructure its purchases from Young 2 as part of its plan to comply with Minnesota's Renewable Energy Standard. Under the Minnesota Renewable Energy Standard, ALLETE must generate or procure 20 percent of its energy from renewable energy sources by 2020 and 25 percent by 2025.

informing the Commission that the HVDC Acquisition did not close and, therefore, the agreements and tariff revisions submitted in those dockets will not go into effect.

² ALLETE also proposes to purchase other discrete facilities related to the HVDC Line, as well as certain tariffs, contracts and existing transmission and interconnection queues. The facilities are described in greater detail in the application for acquisition of jurisdictional facilities that ALLETE filed under Federal Power Act section 203, 16 U.S.C. § 824b (2006), on September 4, 2009 in Docket No. EC09-108-000. That filing will be addressed by separate order.

³ ALLETE's merchant function also has an agreement for an additional 50 MW of capacity on the HVDC Line, which is contingent upon upgrades.

4. Under ALLETE's plan, it will gradually phase out its power purchases from Young 2 and replace that power with wind energy produced in North Dakota. Minnkota will gradually increase its purchases from Young 2, and by 2026, Minnkota will receive all the output from that generator.

5. At closing of the HVDC Acquisition, ALLETE will obtain Minnkota's transmission rights over the HVDC Line. ALLETE, however, will assign those rights back to Minnkota until Minnkota completes a planned 345 kV alternating-current transmission line (with an anticipated in-service date of 2013) to transport the Young 2 generation to Minnkota's load in the Red River Valley in North Dakota and Minnesota. Once Minnkota's new 345 kV alternating current line is in service, Minnkota's transmission rights to the HVDC Line expire and revert back to ALLETE, and ALLETE anticipates using the line to transport wind energy to its customers.

II. Proposed Filings

6. In Docket No. ER09-1726-000, ALLETE submitted a new Schedule 2-HVDC (Reactive Supply and Voltage Control from Generation or Other Service for HVDC Transmission Customers) to its OATT in order to govern the provision of reactive power and voltage support over the HVDC Line. ALLETE proposes a \$0/mega volt ampere reactive (MVAR) rate for reactive power provided over the HVDC Line. ALLETE also submitted a Notice of Suspension of sections 2 through 35, Schedules 1, 3 through 6, and Attachments A through I of ALLETE's OATT in light of the fact that those provisions have been superseded by either the Midwest ISO Tariff or the operation of the Midwest ISO ancillary services market since January 6, 2009.

7. In Docket No. ER09-1727-000, Midwest ISO and ALLETE submitted a proposed Agency Agreement pursuant to which Midwest ISO will provide transmission service over the HVDC Line. They also proposed changes to Midwest ISO's Tariff that they say are required to effectuate the proposed Agency Agreement and to compensate Midwest ISO for services to be provided thereunder. Midwest ISO also proposes to include in its Tariff certain standardized terms and conditions of service on HVDC facilities in general. The proposal in Docket No. ER09-1727-000 also includes ALLETE's proposed revisions to Attachment O of the Midwest ISO Tariff to establish separate rates for transmission service using ALLETE's alternating-current facilities and for transmission service over the HVDC Line.

8. In Docket No. ER09-1728-000, ALLETE submitted a proposed Interconnection Agreement with Square Butte that: (1) moves the existing point of interconnection between the parties' transmission facilities to Square Butte's 230 kV substation in Center, North Dakota; and (2) governs the coordinated operation of the parties' respective systems in light of ALLETE's purchase of the HVDC Line from Square Butte.

III. Notice of Filings and Responsive Pleadings

9. Notice of ALLETE's filing in Docket No. ER09-1726-000 was published in the *Federal Register*, 74 Fed. Reg. 50179 (2009), with interventions and protests due on or before October 13, 2009. Timely motions to intervene were filed by Midwest ISO and Square Butte.

10. Notice of Midwest ISO and ALLETE's filing in Docket No. ER09-1727-000 was published in the *Federal Register*, 74 Fed. Reg. 50179 (2009), with interventions and protests due on or before October 13, 2009. Timely motions to intervene were filed by American Municipal Power, Inc., Square Butte, Midwest ISO Transmission Owners (Midwest ISO TOs),⁴ and Wisconsin Electric Power Company. Timely motions to intervene and protests were filed by Midwest TDUs⁵ and International Transmission Company, Michigan Electric Transmission Company, LLC, and ITC Midwest LLC (collectively, International Transmission). A motion to intervene out-of-time was filed by Consumers Energy Company (Consumers). Midwest ISO TOs filed an answer supporting International Transmission's comments and requesting that the Commission limit the approval in this proceeding to the HVDC Line. Midwest ISO and ALLETE filed an answer and request for expedited action.

⁴ For the purpose of this filing, the Midwest ISO TOs include: Ameren Services Company, for Union Electric Company, Central Illinois Public Service Company, Central Illinois Light Co., and Illinois Power Company; American Transmission Company LLC; American Transmission Systems, Incorporated, a subsidiary of FirstEnergy Corp.; City of Columbia Water and Light Department (Columbia, Missouri); City Water, Light & Power (Springfield, Illinois); Duke Energy Corp. for Duke Energy Ohio, Inc., Duke Energy Indiana, Inc., and Duke Energy Kentucky, Inc.; Great River Energy; Hoosier Energy Rural Electric Cooperative, Inc.; Indiana Municipal Power Agency; Indianapolis Power & Light Company; Michigan Public Power Agency; MidAmerican Energy Company; Montana-Dakota Utilities Co.; Northern Indiana Public Service Company; Northern States Power Company, a Minnesota corporation, and Northern States Power Company, a Wisconsin corporation, subsidiaries of Xcel Energy Inc.; Northwestern Wisconsin Electric Company; Otter Tail Power Company; Southern Illinois Power Cooperative; Southern Indiana Gas & Electric Company; Southern Minnesota Municipal Power Agency; Wabash Valley Power Association, Inc.; and Wolverine Power Supply Cooperative, Inc.

⁵ For the purpose of this filing, the Midwest TDUs include: Madison Gas & Electric Company; Missouri River Energy Services; and WPPI Energy, Inc.

11. Notice of ALLETE's filing in Docket No. ER09-1728-000 was published in the *Federal Register*, 74 Fed. Reg. 50179 (2009), with interventions and protests due on or before October 13, 2009. Timely motions to intervene were filed by Midwest ISO and Square Butte.

IV. Discussion

A. Procedural Matters

12. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2009), the timely, unopposed motions to intervene serve to make the entities that filed them parties to the proceedings in which they were filed.

13. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2009), the Commission will grant Consumers' late-filed motion to intervene in Docket No. ER09-1727-000 given its interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

14. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2009), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answers filed in Docket No. ER09-1727-000, because they have provided information that assisted us in our decision-making process.

B. Substantive Matters

1. Docket No. ER09-1726-000

a. Schedule 2-HVDC

i. Proposal

15. ALLETE submitted a new Schedule 2-HVDC (Reactive Supply and Voltage Control from Generation or Other Service for HVDC Transmission Customers) to its OATT in order to govern the provision of reactive power and voltage support over the HVDC Line. ALLETE proposes a \$0/MVAR rate for reactive power provided over the HVDC Line.

ii. Commission Determination

16. We accept ALLETE's proposed Schedule 2-HVDC to govern reactive power and voltage support provisions for the HVDC facilities. We find that proposed Schedule 2-

HVDC adopts the *pro forma* schedule 2 of Order No. 890⁶ in principle, and only deviates to reflect the fact that the service at issue is point-to-point transmission service over the HVDC Line. Therefore, we accept ALLETE's proposed \$0/MVAR rate for reactive power and voltage support service provided over the HVDC Line as just and reasonable. Under the proposed Agency Agreement (described below), generator-supplied reactive power and voltage support must either be self-supplied by the customer or will be provided by ALLETE. Further, we note that ALLETE recognizes that it must make any necessary filings with the Commission if ALLETE decides to charge for Schedule 2-HVDC services in the future.

b. Notice of Suspension

i. Proposal

17. ALLETE submitted a Notice of Suspension of sections 2 through 35, Schedules 1, 3 through 6, and Attachments A through I of ALLETE's OATT in light of the fact that those provisions have been superseded by either the Midwest ISO Tariff or the operation of the Midwest ISO ancillary services market since January 6, 2009.

ii. Commission Determination

18. We accept ALLETE's proposed Notice of Suspension of the portions of its OATT that have been superseded as a result of ALLETE's transfer of functional control of its alternating current transmission facilities to Midwest ISO or the operation of the Midwest ISO ancillary services market. On January 6, 2009, ALLETE ceased providing services under Schedules 3, 5 and 6 under the ALLETE OATT because Midwest ISO began to provide those ancillary services through its ancillary services market. In addition, the other aforementioned portions of the OATT have been superseded by the Midwest ISO Tariff or the operation of the ancillary services market. Therefore, ALLETE no longer needs to have these provisions in effect. Accordingly, ALLETE's section 1, Schedule 2, and Schedule 2-HVDC will be the only effective tariff provisions in ALLETE's OATT.

⁶ *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241, *order on reh'g*, Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 (2007), *order on reh'g*, Order No. 890-B, 123 FERC ¶ 61,299 (2008), *order on reh'g*, Order No. 890-C, 126 FERC ¶ 61,228 (2009), *order on reh'g*, Order No. 890-D, 129 FERC ¶ 61,126 (2009).

2. Docket No. ER09-1727-000**a. Agency Agreement****i. Proposal**

19. Midwest ISO and ALLETE submitted the Agency Agreement as a rate schedule for both Midwest ISO and ALLETE. They state that the purpose of the Agency Agreement is to establish a mechanism for ALLETE to delegate to Midwest ISO certain specified rights and responsibilities with respect to the HVDC Line – authority that Midwest ISO and ALLETE say is narrower in scope than full functional control, but broader than mere tariff administration duties. They state that the Agency Agreement provides that Midwest ISO will perform the essential transmission provider and reliability coordinator responsibilities with respect to the HVDC Line, and will engage in other functions. ALLETE will retain physical operation of the HVDC Line and have control over its rates and revenue requirements.

20. The Agency Agreement states that Midwest ISO will provide point-to-point HVDC transmission service and generator interconnection services over the HVDC Line pursuant to the terms and conditions included in the new section 27A (as well as other related provisions) of the Midwest ISO Tariff. Midwest ISO will provide the Scheduling, System Control and Dispatch Service for customers taking service on the HVDC Line under new Schedule 1-HVDC of the Midwest ISO Tariff. It also will administer pre-existing transmission service agreements and pre-existing generator interconnection agreements for service over the HVDC Line. Midwest ISO will have certain authority to enter into coordination arrangements with the control areas adjacent to the HVDC Line and to coordinate system operation and emergency protocols.

21. With respect to transmission planning, the Agency Agreement states that the HVDC Line shall be treated as any Non-Transferred Facility under the Agreement of Transmission Facilities Owners to Organize The Midwest Independent Transmission System Operator, Inc., A Delaware Non-Stock Corporation (Owners Agreement)⁷ and the Midwest ISO Tariff. The Agency Agreement states that “Midwest ISO and ALLETE shall conduct collaborative and coordinated transmission planning as applicable with respect to the HVDC [Line] in accordance with the Transmission Owners Agreement, the Midwest ISO’s Transmission Expansion Planning Protocol (Attachment FF of the Tariff),

⁷ Agreement of Transmission Facilities Owners to Organize The Midwest Independent Transmission System Operator, Inc., A Delaware Non-Stock Corporation, Midwest ISO FERC Electric Tariff, First Revised Rate Schedule No. 1.

and applicable regulations.”⁸ Midwest ISO explains that, in general, the HVDC Line is not subject to the cost allocation obligations of Attachment FF (Transmission Expansion Planning Protocol) of the Midwest ISO Tariff. However, the Agency Agreement states that the cost allocation provisions will apply to an upgrade to the HVDC Line that is determined to be a Baseline Reliability Project. Additionally, the Agency Agreement provides that, under the cost sharing provisions of Attachment FF of the Midwest ISO Tariff, the HVDC Line will not be assigned any line outage distribution factor associated with any Baseline Reliability Project.

22. With respect to transmission losses, ALLETE initially proposed to charge incremental loss rates (divided into 50 MW blocks, prioritized based on reservation date) for firm point-to-point service on the HVDC Line. Earlier reservations would be subject to lower loss rates, while later reservations would be subject to higher ones. However, in response to a protest (discussed further below), ALLETE does not oppose charging for losses on an average basis for existing and new firm transmission customers on the HVDC Line, if the Commission directs it to do so. ALLETE and Minnkota will then, based on their existing agreement, separately apply incremental loss calculations to assign losses between themselves.

23. For non-firm point-to-point transmission service customers, ALLETE proposes to charge incremental losses with a slightly adjusted incremental transmission rate for non-firm service over the HVDC Line. Although a true incremental rate for non-firm service is arguably \$0, ALLETE proposes a nominal \$1/MWh rate, in addition to incremental losses, so that non-firm customers contribute to the fixed costs of the HVDC Line and provide some economic value to non-firm reservations. ALLETE states that the non-firm point-to-point rate that would otherwise apply under the standard Midwest ISO Attachment O methodology would be \$3.80/MWh.

24. Midwest ISO states that there are several important benefits that will accrue to Midwest ISO and its customers and member participants from the proposal. Midwest ISO states that it will gain needed experience administering transmission service on HVDC facilities under its Tariff. It can also utilize its economies of scale, which it estimates represents a saving of \$1 million per year when compared to what ALLETE might have to pay to set up and maintain a stand-alone tariff administration function for the HVDC Line. In addition, Midwest ISO expects that the revenue it collects for the

⁸ Midwest ISO and ALLETE, Filing, Docket No. ER09-1727-000, Tab A (Agency Agreement), at 8 (filed September 21, 2009).

administrative functions it will provide pursuant to the Agency Agreement will offset Schedule 10 costs⁹ for other customers by an estimated \$240,000 per year.¹⁰

ii. Protests

25. International Transmission notes that the Agency Agreement states that Midwest ISO shall collect and distribute revenue pursuant to Appendix C, section III.A.3 of the Owners Agreement. However, that section of the Owners Agreement states that revenues collected “for transmission services associated with power transactions where the generation sources(s) and load(s) are physically located within the same Host Zone shall be fully distributed to that Host Zone whether the generation source is controlled by the Owner or another entity.” International Transmission believes that this provision will not necessarily apply to a transaction on the HVDC Line, where it is possible for both the ultimate generation source and load to be located outside of the ALLETE pricing zone. International Transmission believes the applicable Owners Agreement provision is Appendix C, Article III.A.7, which provides for revenues to be shared based on transmission investment and power flows. If ALLETE does not want to be subject to revenue-sharing for transactions on the HVDC Line that source and sink outside of its pricing zone, International Transmission argues that the Commission should require Midwest ISO and ALLETE to set out the appropriate revenue distribution methodology in Schedules 7 and 8 of the Midwest ISO Tariff.

26. International Transmission also argues that ALLETE’s investment in the HVDC Line should not be included in the investment used to determine the revenue distribution for point-to-point transmission service revenues. International Transmission states that the revenue being distributed under this provision of the Owners Agreement is from point-to-point transactions that use Midwest ISO’s alternating current transmission system and that, under the proposal, the HVDC Line will not be used in providing any of this point-to-point transmission service.¹¹

⁹ Schedule 10 of the Midwest ISO Tariff, the ISO Cost Recovery Adder, provides for recovery of the costs of operating the Midwest ISO that are not addressed in other schedules, such as the costs of administering the tariff. Midwest ISO Tariff, Schedule 10, First Revised Sheet Nos. 1922-24.

¹⁰ Midwest ISO and ALLETE, Filing, Docket No. ER09-1727-000, Tab D (Prepared Direct Testimony of Clair J. Moeller), at 6-7 (filed September 21, 2009).

¹¹ Midwest ISO TOs submitted comments generally concurring with International Transmission’s comments.

27. Midwest TDUs object to ALLETE's proposal to charge, in combination, the average embedded cost rate for transmission service and incremental (instead of average) losses for firm point-to-point service. Midwest TDUs state that the mismatch of average embedded cost rates and incremental losses violates Commission policy.¹² Midwest TDUs do not object to the non-firm HVDC service rate of \$1/MWh rate plus incremental losses.

iii. Answer

28. Midwest ISO and ALLETE disagree that the revenue distribution language in the Owners Agreement may not apply to service on the HVDC Line, but they propose to revise the Agency Agreement to remove references to the provision in question and to make clear that Midwest ISO will distribute to ALLETE all revenue associated with the HVDC Line. To avoid any ambiguity or controversy, and if the Commission directs them to do so, Midwest ISO and ALLETE agree to revise section 3.2.9 of the Agency Agreement as follows:

The Midwest ISO shall collect and distribute fully to ALLETE the revenue received in connection with the provision of transmission and ancillary service over the HVDC [Line], including the transmission and ancillary services provided under Pre-existing HVDC Transmission Agreements. ~~Revenue will be collected and distributed pursuant to Appendix C, Section III.A.3 of the Transmission Owners Agreement.~~ The timing of revenue distribution to ALLETE for the revenue collected from HVDC Customers pursuant to this Agreement shall be as-identical to that specified in Section 7 of the Tariff for transmission service revenue distribution.

29. Midwest ISO and ALLETE also clarify that ALLETE's investment in the HVDC Line will be excluded from the investment used to calculate revenue sharing under the Owners Agreement. They state that no associated tariff revision is necessary for this clarification.

¹² Midwest TDUs, Protest, Docket No. ER09-1727-000, at 4 (filed October 13, 2009) (citing *Sithe/Independence Power Partners LP v. FERC*, 165 F.3d 944 (D.C. Cir. 1999); *Northern States Power Co.*, 59 FERC ¶ 61,100, at 61,369, *reh'g denied*, 60 FERC ¶ 61,076, at 61,252-53 & n.25 (1992), *clarification denied*, 64 FERC ¶ 61,111, at 61,920 (1993), *aff'd sub nom. Northern States Power Co. v. FERC*, 30 F.3d 177 (D.C. Cir. 1994)).

30. Midwest ISO and ALLETE do not oppose the Midwest TDUs' suggestion that the Agency Agreement be amended to reflect the losses pricing methodology that the Midwest TDUs propose in Attachments A, B, and C of their protest. As Midwest ISO and ALLETE state in their answer, under this methodology, losses will be charged on an average basis to existing and new firm transmission customers. Midwest ISO and ALLETE also note that, as originally proposed, all losses associated with non-firm transactions, will continue to be allocated on an incremental basis. Midwest ISO and ALLETE agree to amend the Agency Agreement in a compliance filing, if directed to do so by the Commission.

iv. Commission Determination

31. We find that the Agency Agreement, with certain modifications, is just and reasonable and will, therefore, conditionally accept it for filing. The Agency Agreement is consistent with the Owners Agreement, which specifically contemplates that transmission owners will use such agreements to delegate to Midwest ISO responsibility over certain non-transferred facilities.¹³ In addition, the Agency Agreement will provide customers with the benefit of an independent entity providing transmission service over the HVDC Line. As Midwest ISO explains, the proposal will also allow Midwest ISO to utilize its economies of scale, which it estimates represents a savings of \$1 million per year for ALLETE. This, in turn, may result in lower rates for service on the HVDC Line. Midwest ISO also estimates that the revenue it receives for providing administrative functions under the Agency Agreement will offset an estimated \$240,000 per year of Schedule 10 costs.

32. We agree with International Transmission that the revenue distribution provisions in the Agency Agreement should be revised because the revenue distribution provision in the Owners Agreement may not apply to the HVDC Line in all situations. Therefore, we direct Midwest ISO and ALLETE, in the compliance filing we require below, to make the changes they propose to section 3.2.9 of the Agency Agreement to remove reference to the Owners Agreement and to make clear that Midwest ISO will distribute to ALLETE all the transmission and ancillary service revenue associated with service on the HVDC Line. We also accept Midwest ISO's and ALLETE's clarification that ALLETE's investment in the HVDC Line will be excluded from the investment used to calculate revenue sharing under the Owners Agreement.

33. We also accept the transmission planning provisions of the proposal. The Agency Agreement states that the HVDC Line shall be treated like any other Non-Transferred

¹³ Owners Agreement, Appendix G, Midwest ISO FERC Electric Tariff, First Revised Rate Schedule No. 1, Original Sheet Nos. 203-07.

Facility under the Owners Agreement and the Midwest ISO Tariff with respect to transmission planning. Attachment FF of the Tariff requires a transmission owner to utilize the Midwest ISO planning stakeholder forums to demonstrate the need for, identify the alternatives to, and report the status of upgrades to non-transferred transmission facilities using the same open, transparent and coordinated planning process provided by Midwest ISO for transferred facilities. In other words, transmission planning on the HVDC Line will be subject to the same open and transparent transmission planning process used for facilities under Midwest ISO's functional control.

34. We conditionally accept ALLETE's rate proposal for transmission losses, subject to a compliance filing, as discussed below. We agree with Midwest TDUs that it would be unreasonable for ALLETE to assign incremental losses and charge average embedded cost rates for service on the HVDC Line.¹⁴ Therefore, we direct ALLETE to submit a proposal in its compliance filing to charge for losses on an average basis for all existing and new firm HVDC transmission service customers, consistent with suggestions made by Midwest TDUs in their protest. For non-firm HVDC service customers, ALLETE still proposes to assess incremental losses, but will instead charge a slightly adjusted incremental transmission rate of \$1/MWh for non-firm service over the HVDC Line. We find this proposal to charge non-firm HVDC service customers incremental losses plus a nominal \$1/MWh incremental (instead of average) rate to be just and reasonable.

35. ALLETE argues that the combination of average transmission rates and incremental losses is appropriate for the existing firm customers (i.e., itself and Minnkota), because it reflects pre-existing firm contracts for the full capacity of the HVDC Line and ALLETE and Minnkota have agreed not to change this rate structure. Therefore, we will allow ALLETE and Minnkota, after charging losses on an average basis to all existing and new firm point-to-point customers, to re-assign incremental losses between themselves separately, based on their pre-existing agreement.

¹⁴ See *Sithe/Independence Power Partners LP v. FERC*, 165 F.3d 944 (D.C. Cir. 1999); *Northern States Power Co.*, 59 FERC ¶ 61,100, at 61,369, *reh'g denied*, 60 FERC ¶ 61,076, at 61,252-53 & n.25 (1992), *clarification denied*, 64 FERC ¶ 61,111, at 61,920 (1993), *aff'd sub nom. Northern States Power Co. v. FERC*, 30 F.3d 177 (D.C. Cir. 1994). In addition, ALLETE's incremental loss proposal is different than Midwest ISO's current practice of using a marginal loss component to calculate locational marginal prices and refunding the marginal loss surplus, while also charging all customers an average embedded-cost rate for transmission service. Unlike ALLETE's proposal to charge incremental losses for firm HVDC service, where customers with later reservations would pay higher loss rates, the marginal loss component for a particular locational marginal price is the same for all customers, and there is no adverse distinction based on the sequence in which customers are added.

b. Rates for HVDC Service

i. Proposal

36. ALLETE proposes for inclusion in the Midwest ISO Tariff a new Attachment O – ALLETE, Inc. ALLETE’s proposed Attachment O calculates its revenue requirement using Midwest ISO’s *pro forma* Attachment O formula rate, except that the revenue requirement is split to provide a revenue requirement for: (1) ALLETE’s alternating current system; and (2) the HVDC Line. ALLETE states that, for the most part, it will be able to directly assign costs associated with the HVDC Line for inclusion in the revenue requirement for service over the HVDC Line. It adds that the use of direct assignment is reasonable because the costs of the HVDC Line are easily separated in ALLETE’s books and the costs associated with the HVDC Line are significantly different than the costs associated with ALLETE’s alternating current transmission system. Costs that ALLETE is not able to directly assign will be allocated based on net plant or gross plant (depending on the *pro forma* Attachment O allocator for the particular cost).

37. The Attachment O formula rate is a historical formula rate that is updated each June based on a transmission owner’s prior year FERC Form No. 1 data. Therefore, ALLETE requests Commission approval to include Square Butte’s 2008 costs in ALLETE’s Attachment O formula rate to calculate the revenue requirement for service on the HVDC Line until ALLETE has owned the HVDC Line for a full calendar year.

38. ALLETE has also submitted for filing a new Attachment N-1 – ALLETE, Inc. for inclusion in the Midwest ISO Tariff. The existing Attachment N-1 of the Midwest ISO Tariff is used to calculate the fixed charge rates, which are, in turn, used to calculate the charges under Attachment N for direct assignment facilities needed to accommodate transmission service. Attachment N-1 – ALLETE, Inc. is identical to the existing Attachment N-1 except that it includes separate columns for ALLETE’s alternating current system and the HVDC Line.

39. In addition, Midwest ISO and ALLETE propose to revise Schedule 7 (Long-Term Firm And Short-Term Firm Point-To-Point Transmission Service) and Schedule 8 (Non-Firm Point-To-Point Transmission Service) to state that transmission customers in ALLETE’s pricing zone shall pay rates differentiated by whether the customer is taking alternating current service or HVDC service. The rate for ALLETE’s firm HVDC service will be based on ALLETE’s revised Attachment O, and, as we discuss above, the charge for non-firm HVDC service will be \$1/MWh¹⁵

¹⁵ See Midwest ISO and ALLETE Filing, Docket No. ER09-1727-000, Tab H at note AA (filed September 21, 2009) (providing that the charge for non-firm services is \$1/MWh).

40. Finally, Midwest ISO and ALLETE attached to their filing a proposed HVDC Transmission and Market Services Business Practices Manual, which contains the following rate provision:

Rate Pan-Caking [*sic.*]

Commercial Pricing Nodes are registered in the commercial model representing each end of the HVDC [Line]. To eliminate rate pan-caking, any Point to Point [transmission service request] on the Midwest ISO [alternating current] system that sinks at the HVDC [Line] will receive a \$0 rate.

ii. Comments/Protests

41. International Transmission views the transmission service over the HVDC Line as being more like partial-path transmission service than like zonal transmission service, since all transmission customers using the HVDC Line will need to take and pay for additional transmission service on the Midwest ISO system to deliver power to load. International Transmission, therefore, believes it is confusing to designate service across the HVDC Line as zonal point-to-point transmission service and to include the rates in the Zonal Rate sections of Schedules 7 and 8 of the Midwest ISO Tariff. Instead, International Transmission believes there should be separate provisions for ALLETE HVDC service under Schedules 7 and 8. Midwest ISO Transmission Owners submitted comments stating that they agree with International Transmission.

iii. Answer

42. Midwest ISO and ALLETE do not necessarily agree with International Transmission's characterization of service over the HVDC Line as "partial-path transmission service," but have no objection to putting the rates for service on the HVDC Line in a separate section of Schedules 7 and 8 or in separate schedules.

iv. Commission Determination

43. We find it just and reasonable for ALLETE to use the Midwest ISO Attachment O formula rate to create a separate revenue requirement for the HVDC Line. We also accept for filing Attachment O – ALLETE, Inc. as part of the Midwest ISO Tariff. Attachment O – ALLETE, Inc. is identical to Midwest ISO's *pro forma* Attachment O except for changes necessary to split ALLETE's revenue requirement so that there is one for ALLETE's alternating current system and one for the HVDC Line. We also find just and reasonable ALLETE's proposed Schedule N-1, which is identical to the existing N-1 except for the separate columns for ALLETE's alternating-current system and the HVDC Line.

44. We will grant ALLETE's request to use Square Butte's 2008 costs to calculate the revenue requirement for service on the HVDC Line until ALLETE has owned the HVDC Line for a full year, and has a full calendar year's worth of its own cost data. Note Z of ALLETE's Attachment O states that ALLETE's transmission and general plant depreciation rates are shown in an attached schedule, but no schedule was included in the filing. We will therefore direct ALLETE to file, in the compliance filing required below, the schedule that includes the depreciation rates ALLETE will use in calculating its revenue requirement.

45. We will conditionally accept the revisions to Schedules 7 and 8, which indicate that customers in ALLETE's pricing zone will pay separate rates for alternating current service and HVDC service. However, we agree with International Transmission that it may be confusing to include HVDC service under the zonal rate section of Schedules 7 and 8. Therefore, we direct Midwest ISO and ALLETE, in the compliance filing we require below, to revise Schedules 7 and 8 so that provisions for ALLETE's HVDC service is in a new, separate section of those schedules.

46. Finally, it appears that Midwest ISO has included a rate provision in its business practice manual that is not in its Tariff. Specifically, the business practice manual included in the filing states that point-to-point transmission service requests on Midwest ISO's alternating-current transmission system will be assessed a \$0 rate if the transaction sinks at the HVDC Line. This provision, while unclear, appears to apply to three-part transactions on the Midwest ISO system. First, a transaction uses the Midwest ISO alternating current system to arrive at the HVDC Line. Second, the transaction traverses the HVDC Line. Third, the transaction leaves the HVDC Line and again enters Midwest ISO's alternating current system. In this scenario, the provision in the business practice manual seems to indicate that Midwest ISO will assess a \$0 rate for the first part of the transaction, but the second and third parts will be assessed the HVDC rate and Midwest ISO alternating current rate, respectively. While it is appropriate for Midwest ISO not to charge pancaked transmission rates for service on its alternating-current system, there is no provision for a \$0 rate in the Midwest ISO Tariff. Therefore, we direct Midwest ISO and ALLETE to explain how it will implement this \$0 charge to avoid rate pancaking on Midwest ISO's alternating-current system and to revise the Midwest ISO Tariff, in the compliance filing we require below, to include the rate, terms and conditions associated with it.

c. Tariff Changes

i. Proposal

47. Midwest ISO states that, as part of the instant filing, it has developed certain standardized terms and conditions of service applicable to HVDC facilities in general. Midwest ISO has included these terms and conditions in proposed section 27A of the

Midwest ISO Tariff, which will apply to service on HVDC facilities instead of the standard point-to-point transmission service provisions. Section 27A contemplates that HVDC facilities will not be part of Midwest ISO's energy and operating reserve markets because current technology, as deployed by Midwest ISO, does not allow for the integration of HVDC transmission facilities into Midwest ISO's Security Constrained Unit Commitment process or the currently-available Security Constrained Economic Dispatch software systems. Midwest ISO states that it will offer firm and non-firm point-to-point service (but not network service) over the HVDC Line. There will be no Financial Transmission Rights associated with HVDC service.

48. Midwest ISO has also proposed new *pro forma* service agreements for: (1) Short-Term Firm HVDC Service; (2) Long-Term Firm HVDC Service; (3) Resale, Reassignment or Transfer of HVDC Service; and (4) Non-Firm HVDC Service. To receive HVDC service, an eligible customer must execute an HVDC Service Agreement with Midwest ISO. However, HVDC service is only available once Midwest ISO and the owner or operator of the HVDC facility enter into an appropriate contractual arrangement allowing Midwest ISO to provide such service (such as the ALLETE Agency Agreement), and only for the duration of such an arrangement. Midwest ISO states that the proposed HVDC service is generally modeled on the Commission *pro forma* open access transmission tariff and the Midwest ISO Tariff's existing point-to-point transmission service provisions, with the necessary changes made to account for differences between alternating current and HVDC facilities.

49. For example, Midwest ISO states that section 27A provides that HVDC service will be available only on those facilities with respect to which appropriate contractual arrangements for the provision of this service have been executed by Midwest ISO and the owner or operator of those facilities. In addition, although section 27A provides for firm and non-firm redirect service consistent with the *pro forma* OATT, these redirects are necessarily limited to points of receipt and delivery located on the particular HVDC facilities. As a result, customers taking service under section 27A would not be able to redirect service from any HVDC facility that is subject to section 27A to Midwest ISO's alternating current system. Third, transmission losses for such HVDC facilities will be calculated in accordance with procedures developed by Midwest ISO and the applicable owner or operator of the HVDC facilities.

50. Midwest ISO also proposes to include in its Tariff a new Schedule 1-HVDC, which establishes standard terms and conditions for Scheduling, System Control and Dispatch Service on HVDC facilities. Midwest ISO states that Schedule 1-HVDC is closely modeled on the *pro forma* schedule 1 and will apply to service on ALLETE's HVDC Line. Midwest ISO will calculate the separate rate for service under Schedule 1-HVDC, based on the costs applicable to each HVDC facility.

51. Midwest ISO states that there are two major reasons that it is proposing generic HVDC service provisions in its Tariff rather ALLETE-specific terms and conditions for the HVDC Line. First, Midwest ISO believes that terms and conditions of service on HVDC facilities lend themselves well to standardization, while, at the same time, being distinct from Midwest ISO's standard point-to-point service. Second, Midwest ISO expects that, in the future, HVDC facilities will play a major role in bringing wind and other generation into Midwest ISO. Midwest ISO states that having generic, Commission-approved terms and conditions for service on such facilities will provide the necessary predictability and transparency for wind developers and transmission owners and operators undertaking these projects.

ii. Comments/Protests

52. Midwest TDUs do not oppose the generally-applicable HVDC provisions that Midwest ISO proposes to include in its tariff, but they seek clarification that these provisions are meant only as a template that will be subject to fact-specific evaluation and modification as particular HVDC facilities arise. For example, Midwest TDUs ask the Commission to make clear that the use of an Agency Agreement for the HVDC Line should not preclude another transmission owner from placing its HVDC facilities fully within Midwest ISO's functional control as transferred facilities under the Owners Agreement instead of using an Agency Agreement.

53. In their answer, the Midwest ISO TOs also recommend that the Commission limit its approval of the Tariff provisions so that the provisions apply only to ALLETE's HVDC Line. Midwest ISO TOs ask that Midwest ISO engage in a more complete stakeholder process to explore issues related to HVDC service in general. They note that Midwest ISO had only two relatively brief discussions with stakeholders about ALLETE's acquisition of the HVDC line and its inclusion in Midwest ISO.

54. Midwest ISO states that it does not oppose the Midwest TDUs' request that the Commission clarify that the instant proposal does not preclude future changes to provisions of the Midwest ISO Tariff related to service on other HVDC facilities. Midwest ISO adds that the proposal does not foreclose full transfer to Midwest ISO's functional control of other HVDC facilities in the future, where such transfer is consistent with the requirements of the Owners Agreement and is operationally and commercially feasible.

iii. Commission Determination

55. We find, with the exceptions discussed below, that new section 27A, the proposed *pro forma* HVDC service agreements, and Schedule 1-HVDC are just and reasonable. The proposed terms and conditions for HVDC service generally follow, and are consistent with, the Commission's *pro forma* open access tariff provisions and with Midwest ISO's Tariff. For the most part, the differences between existing language in

the Midwest ISO Tariff and language related to HVDC service are necessary to accommodate the differences in the nature of service over alternating current and HVDC facilities. However, we will require Midwest ISO to revise certain language that appears to go beyond what is necessary to accommodate those differences and for which Midwest ISO has not provided sufficient justification.

56. First, new section 27A.7.1 – “Notice for Need for System Impact Study” is modeled on existing section 19.1 of the Midwest ISO Tariff. However, Midwest ISO does not include in new section 27A.7.1 the provision from existing section 19.1 that “a description of [Midwest ISO]’s . . . methodology for completing a System Impact Study is provided in Attachment D.” Midwest ISO also did not explain why a customer whose request for HVDC service necessitates a System Impact Study should not also be provided the methodology Midwest ISO uses to complete that study. We therefore direct Midwest ISO to revise section 27A.7.1, as part of the compliance filing required below, to provide the same access to system impact study methodology for HVDC service that Midwest ISO provides for standard point-to-point service.

57. Second, new section 27A.7.3 – “System Impact Study Procedures” is modeled on existing section 19.3 of the Midwest ISO Tariff. Both sections require Midwest ISO to “use due diligence to complete the required System Impact Study in coordination with the relevant Transmission Owners within sixty (60) days or as soon as practicable.” However, new section 27A.7.3 adds the following additional language:

If the request for service is such that the Transmission Provider determines, before the start of the study, that the only way to accommodate the request is to build new HVDC facilities, then the Transmission Provider will use due diligence to complete the required System Impact Study in coordination with the relevant Transmission Owners within two hundred seventy (270) days or as soon as practicable.

Midwest ISO has not explained why an additional 210 days are needed to complete a System Impact Study in certain circumstances for HVDC service. We therefore direct Midwest ISO to revise section 27A.7.3, as part of the compliance filing required below, to remove the new 270 day deadline or to provide justification as to why the additional time is appropriate.

58. We note that the *pro forma* HVDC service agreements include a provision not in the existing *pro forma* service agreements, stating that if the relevant Agency Agreement terminates, any HVDC service offered by Midwest ISO under the HVDC service agreements will be provided by the relevant Transmission Owner, and Midwest ISO shall be released from any obligations and responsibilities under the service agreement upon such reversion to the Transmission Owner. Because such reversion cannot occur without a further filing to the Commission, we require Midwest ISO to revise the *pro forma*

HVDC service agreements, in the compliance filing we require below, to state that Midwest ISO must make a filing under section 205 of the Federal Power Act before any release from obligations and responsibilities under the service agreements can take effect.

59. In addition, we direct Midwest ISO to revise its Tariff to provide for conditional firm transmission service on the HVDC Line.¹⁶ While Midwest ISO generally is not required to offer conditional firm transmission service because it operates an energy market,¹⁷ the HVDC Line will not be part of the energy market, and, therefore, customers should have access to conditional firm service on the HVDC Line.

60. We also agree with Midwest TDUs that the Commission will evaluate and consider any proposed alternative treatment for future HVDC facilities when filings related to such lines are made. Our acceptance of Midwest ISO and ALLETE's filings means that their proposed treatment of the HVDC Line is just and reasonable – not that it is the only way for Midwest ISO to provide service over any future HVDC facilities. We also agree with Midwest ISO TOs that Midwest ISO should continue to work with stakeholders to explore issues related to HVDC service in general. For example, Midwest ISO should evaluate how it can eventually incorporate ALLETE's HVDC Line, and HVDC facilities in general, into its energy markets. Further, upon clearing any computer software obstacles to incorporating HVDC facilities into the Midwest ISO market, there should be no contractual obstacle to including such facilities completely within Midwest ISO's functional control pursuant to the Owners Agreement.

d. Schedule 35

i. Proposal

61. Midwest ISO has submitted a proposed Schedule 35 (HVDC Agreement Cost Recovery Fee) to the Midwest ISO Tariff to recover the cost of the administrative service Midwest ISO provides under any HVDC agreement, such as the ALLETE Agency Agreement. Transmission customers that take HVDC service over HVDC facilities will have to pay Schedule 35 charges. Midwest ISO states that the costs it recovers under Schedule 35 are for the same set of services for which it recovers its costs under Schedule

¹⁶ See Order No. 890, FERC Stats. & Regs. ¶ 31,241, at P 911-16; Order No. 890-A, FERC Stats. & Regs. ¶ 31,261, at P 552-61.

¹⁷ See Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 992.

10 (Cost Recovery Adder) of the Tariff.¹⁸ Revenue that Midwest ISO receives under Schedule 35 will be used to reduce the costs Midwest ISO recovers under Schedule 10.

62. Under Schedule 35, an HVDC service customer will have to pay a monthly charge comprised of the capacity rate from Schedule 10 of the Midwest ISO Tariff times the amount of point-to-point HVDC service the customer reserved and the duration, in hours, of the reservation. Midwest ISO estimates the annual administrative cost to provide the transmission-related services called for under the Agency Agreement is between \$200,000 and \$250,000. Midwest ISO also estimates that by using the capacity rate from Schedule 10 as the basis for the Schedule 35 charges, Midwest ISO would receive about \$240,000 annually to cover the administrative costs of providing HVDC service.

63. Midwest ISO does not propose to use the Schedule 10 energy rate as a basis for the Schedule 35 charges. Midwest ISO notes that the projected revenue using only the Schedule 10 capacity rate closely matches the estimated costs to provide the transmission related services required under the Agency Agreement. Midwest ISO contends that using both the Schedule 10 capacity rate and the Schedule 10 energy rate would result in a Schedule 35 charge for 500 MW (the capacity of the HVDC Line) that would be almost twice the estimated costs. Midwest ISO states that it will periodically monitor the costs to provide transmission services under any HVDC agreements to determine if and when it may be necessary to propose to change Schedule 35 to ensure administrative costs and Schedule 35 charges continue to be aligned.

ii. Commission Determination

64. We will conditionally accept Midwest ISO's proposed Schedule 35. We find it reasonable for Midwest ISO to use the already-accepted capacity rate from Schedule 10 as the basis for the Schedule 35 charges because both schedules recover the costs of the same set of services. The Schedule 35 revenues will also reduce the costs Midwest ISO has to recover under Schedule 10. Based on Midwest ISO's estimate of the cost of the services it will provide under the Agency Agreement, we also find it reasonable not to include the Schedule 10 energy rate in the Schedule 35 charges. However, we are accepting the Schedule 35 charges only for service Midwest ISO provides to ALLETE under the Agency Agreement for service on the HVDC Line. Although Midwest ISO proposed Schedule 35 to recover the cost of providing service related to *any* HVDC facilities, Midwest ISO determined the Schedule 35 rate based on cost estimates of providing service only for ALLETE's HVDC Line under the Agency Agreement. If

¹⁸ Schedule 10 contains a formula rate. Midwest ISO separates the formula used to calculate the Schedule 10 rate into two components -- one for recovery through the energy rate and one for recovery through the capacity rate.

Midwest ISO provides HVDC service on HVDC facilities other than the ALLETE HVDC Line, Midwest ISO will have to make a filing under section 205 to propose a Schedule 35 rate that is just and reasonable for service Midwest ISO provides on the additional HVDC facilities.

e. **Existing Agreements**

i. **Proposal**

65. Square Butte currently provides firm point-to-point transmission service over the HVDC Line to ALLETE and Minnkota under several transmission service agreements that ALLETE and Midwest ISO state are modeled on the Commission's *pro forma* open access transmission service agreements.¹⁹ These pre-existing HVDC transmission service agreements have been restructured to include Midwest ISO as the transmission provider in accordance with section 27A and other applicable provisions of the Midwest ISO Tariff, and to provide that customers will pay ALLETE's HVDC rate under Schedules 7 and 8 of the Midwest ISO Tariff. Midwest ISO and ALLETE state that they have removed pre-existing terms that are inconsistent with these provisions and Midwest ISO's proposed HVDC service. The pre-existing agreements are not included in the filing, but Midwest ISO intends to file a notice of succession as the transmission provider under these pre-existing agreements within 30 days of the effective date of the Agency Agreement.

ii. **Commission Determination**

66. We cannot make a determination on the issue of treatment of pre-existing agreements because they are not before us at this time. These agreements have not been jurisdictional in the past, because Square Butte is not a public utility. Midwest ISO and ALLETE's description of the amendments, however, suggests that these agreements will become jurisdictional when ALLETE and Midwest ISO – public utilities – become the transmission owner and transmission provider, respectively, with respect to the HVDC Line. We note, therefore, that Midwest ISO and ALLETE will have to file the amended pre-existing agreements and notices of succession in a separate filing under section 205 of the Federal Power Act.

¹⁹ There are seven pre-existing transmission agreements listed in Appendix C of the Agency Agreement. ALLETE and Minnkota each have a pre-existing agreement for 227.5 MW of capacity on the HVDC Line. ALLETE has four more pre-existing agreements for the remaining 45 MW of capacity on the HVDC Line. ALLETE also has another pre-existing agreement for an additional 50 MW of capacity, which is contingent on upgrades.

f. Interconnection Requests

i. Proposal

67. Midwest ISO proposes to amend its *pro forma* Generator Interconnection Procedures to provide that requests to interconnect to HVDC facilities will be processed by Midwest ISO like any other interconnection, with two minor caveats. The first caveat is that interconnection customers that identify in their request that they wish to move energy across HVDC facilities must demonstrate that a request for long-term firm point-to-point transmission service over the HVDC facilities is either pending or approved and confirmed.²⁰ The second caveat is that, where the interconnection customer identified a point-to-point transmission service request, Network Resource Interconnection Service will qualify the Generating Facility to be designated as a Network Resource so long as a transmission service request in the confirmed mode across the HVDC facilities exists. The Network Resource Interconnection Service will be limited to the confirmed megawatts in the transmission service request.

68. Midwest ISO and ALLETE state that new requests for generator interconnection service over the HVDC Line will be included in Midwest ISO's alternating current generator interconnection queue to the extent that the relevant generator also requests transmission service to deliver its output over Midwest ISO's alternating current transmission system. Generators that request generator interconnection service and transmission service over the HVDC Line will be studied separately in their own queue, which will be closely coordinated with the queue for generators connecting to Midwest ISO's alternating current system. That coordination will involve consideration of timing and progress of the relevant interconnection requests, relative queue position and other similar issues. Midwest ISO and ALLETE state that, effectively, this coordination will place all generator interconnection requests, both to the facilities functionally controlled by Midwest ISO and the HVDC Line, in the same queue. They also state that new requests to connect to and use the HVDC Line will be subject to the Midwest ISO's reformed Generator Interconnection Procedures.

69. In addition, Midwest ISO and ALLETE state that there are currently eleven existing requests for interconnection in the HVDC Line interconnection queue, which are listed in Appendix E of the Agency Agreement. Midwest ISO and ALLETE expect that

²⁰ New section 15.1 of its Generator Interconnection Procedures states that Base Cases in the HVDC Interconnection Feasibility Study and Interconnection System Impact Study will include the modeling of the output of the proposed Generating Facility across the HVDC Facilities only if (and to the extent that) long term firm HVDC Service is pending or confirmed on Midwest ISO's Open Access Same-Time Information System.

only one or two of these requests will remain pending as of the date the HVDC Line is transferred from Square Butte to ALLETE. Any request that does remain pending as of that date shall be included in Midwest ISO's generator interconnection queue in accordance with the Generator Interconnection Procedures set forth in the Midwest ISO Tariff and in a transition plan. Midwest ISO and ALLETE state that they will execute the transition plan for the transfer of the pending requests and will post it on the Midwest ISO Open Access Same-Time Information System. They state that the transition plan will address further specifics of the transition process, consistent with Midwest ISO's previous transition precedents.

ii. Commission Determination

70. We will conditionally accept Midwest ISO's proposed changes to the Generator Interconnection Procedures in its Tariff to accommodate interconnection requests on HVDC facilities. As explained by Midwest ISO, requests for interconnection to the HVDC Line will essentially be combined with the queue for interconnection to the alternating-current system and will be treated, in most respects, the same as any other interconnection request. Because Midwest ISO is not currently proposing to offer network service on HVDC facilities, we find reasonable Midwest ISO's proposed new section 15.2 of its Generator Interconnection Procedures, which states that a generator interconnecting to HVDC facilities can use Network Resource Interconnection Service to qualify as a Network Resource only up to the confirmed megawatts in a point-to-point transmission service request on the HVDC facilities.

71. However, we find that Midwest ISO has not supported new section 15.1 of its Generator Interconnection Procedures, which states that Base Cases in the HVDC Interconnection Feasibility Study and Interconnection System Impact Study will include the modeling of the output of the proposed Generating Facility across the HVDC facilities only if (and to the extent that) long term firm HVDC service is pending or confirmed on Midwest ISO's Open Access Same-Time Information System. The Commission treats interconnection and delivery as separate aspects of transmission service, and an interconnection customer may request interconnection service separately from transmission service. As such, it is unclear why it is appropriate for Midwest ISO to limit its interconnection studies to only requests that have associated pending or firm long-term firm service request on the HVDC facility. Therefore, we direct Midwest ISO, in the compliance filing we require below, to remove section 15.1 from its Generator Interconnection Procedures. In addition, we direct Midwest ISO to include in the compliance filing we require below a copy of the transition plan it executes with ALLETE for the transfer of the pending interconnection requests.

3. Docket No. ER09-1728-000

a. Proposal

72. In Docket No. ER09-1728-000, ALLETE submitted a transmission-to-transmission Interconnection Agreement between ALLETE and Square Butte. The Interconnection Agreement provides that, upon ALLETE's purchase of the HVDC Line, the existing point of interconnection between ALLETE's transmission facilities and Square Butte's remaining transmission facilities will move from the Arrowhead substation to the Square Butte substation. The Interconnection Agreement also establishes the requirements, terms, and conditions for the interconnection and coordination of the HVDC Line, Square Butte's remaining transmission facilities, and Young 2. The term of the Interconnection Agreement is 40 years. ALLETE states that the Interconnection Agreement is not subject to Midwest ISO's delegated authority under the Agency Agreement.

73. The Interconnection Agreement establishes Square Butte's and ALLETE's operation and maintenance obligations for the HVDC Line, Square Butte's remaining transmission facilities, and Young 2. The Interconnection Agreement also provides, among other things, that the parties will exchange information regarding the operating limits and ratings of their facilities and operate their facilities accordingly. The parties will also coordinate the planning and scheduling of facilities maintenance and modifications so that ALLETE can meet its obligations under Midwest ISO's outage scheduling process. In addition, the Interconnection Agreement establishes the parties' respective reactive power and voltage support obligations. The agreement also delineates the parties' obligations in emergency situations. In such circumstances, the parties will comply with any applicable Midwest ISO emergency procedures (and Midwest ISO directives) and the parties' own emergency procedures that are necessary for regulatory and reliability compliance.

74. The Interconnection Agreement is administered by a four-member committee responsible for various administrative and advisory functions. ALLETE explains that while the nature of the committee's duties will change over the course of the agreement, the committee will primarily act as a liaison between ALLETE and Square Butte and provide an annual review of the current operating practices and procedures relative to the interconnection facilities to ensure compliance with the North American Electric Reliability Corporation and Regional Reliability Organization/Regional Entity standards and the effective operation of the interconnection.

b. Commission Determination

75. We will conditionally accept the Interconnection Agreement for filing, subject to a compliance filing. While the Interconnection Agreement provides the requisite terms and conditions that ALLETE and Square Butte will follow to coordinate their interconnected

systems, and requires the parties to comply with Midwest ISO's directives in emergency situations and to meet Midwest ISO's outage scheduling process, Commission precedent dictates that Midwest ISO should also be a signatory to the Interconnection Agreement.²¹ Although the Interconnection Agreement is not subject to Midwest ISO's delegated authority under the Agency Agreement and the HVDC Line is considered a non-transferred facility, the Interconnection Agreement nonetheless contains provisions that necessarily impact the operation of transmission facilities that are under Midwest ISO's functional control.²² Therefore, we require that Midwest ISO be a signatory to the Interconnection Agreement and for Midwest ISO and ALLETE to include the revised Interconnection Agreement, as executed by Midwest ISO, in the compliance filing we direct below. This will ensure that Midwest ISO is fully apprised of the matters addressed and that Midwest ISO has had the opportunity to raise any reliability concerns it might have. We believe that this requirement will best ensure that Midwest ISO can continue to plan and operate the facilities under its control in a safe and reliable manner.

The Commission orders:

(A) ALLETE's proposed Schedule 2-HVDC and Notice of Suspension are hereby accepted, to be effective upon the closing of the HVDC Acquisition, as requested.

(B) Midwest ISO and ALLETE's proposed Agency Agreement and tariff revisions are hereby conditionally accepted, to be effective upon the closing of the HVDC Acquisition, as requested, as discussed in the body of this order.

(C) ALLETE's proposed Interconnection Agreement is hereby conditionally accepted, to be effective upon the closing of the HVDC Acquisition, as requested, as discussed in the body of this order.

²¹ See, e.g., *American Electric Power Service Corp.*, 112 FERC ¶ 61,128, at P 10 (2005).

²² For example, the interconnection agreement includes provisions regarding coordination of outage schedules with Midwest ISO, providing meter data to Midwest ISO, and requirements to follow Midwest ISO's emergency directives.

(D) Midwest ISO and ALLETE are hereby directed to submit a compliance filing within thirty (30) days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.