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BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: : Docket Numbers
COST ALLOCATION METHODOLOGY FOR HIGH :
VOLTAGE BASELINE RELIABILITY PROJECTS :
IN THE MIDWEST ISO REGION :
----- x

Hearing Room 2C
Federal Energy Regulatory
Commission
888 First Street, NE
Washington, DC
Friday, April 21, 2006

The above-entitled matter came on for technical,
conference pursuant to notice, at 1:10 p.m.

BEFORE: JOSEPH T. KELLIHER, CHAIRMAN

1 APPEARANCES:

2 COMMISSIONER NORA MEAD BROWNELL

3 COMMISSIONER SUEDEEN G. KELLY

4 CLAIR MOELLER, Vice President of Transmission
5 Asset Management, Midwest ISO

6 MARTIN BLAKE, Chairman, Tariff Working Group for
7 the Vertically Integrated Transmission Owners of the Midwest
8 ISO and Member and Principal, The Prime Group, LLC

9 DOUG COLLINS, Chairman, Midwest ISP Transmission
10 Owners Committee and Direct System Planning, Alliant Energy
11 Corporate Services, Inc.

12 STEVE GAW, President, Organization of Midwest ISO
13 States and Commissioner, Missouri Public Service Commission

14 RANDY RISMILLER, Illinois Commerce Commission

15 KIM WISSMAN, Assistant Director, Utilities
16 Department Public Utilities Commission of Ohio

17 LARRY BRUNEEL, Vice President for Federal
18 Affairs, International Transmission Company (representing
19 International Transmission Company and Michigan Electric
20 Transmission Company, LLC)

21 GARY MATHIS, Senior Director Electric Policy,
22 Madison Gas and Electric Company (representing the Midwest
23 Transmission Dependent Utilities)

24 -- continued --

25

1 APPEARANCES CONTINUED:

2 GLEN SKARBAKKA, Manager of Resource Planning
3 Great River Energy (representing the North Dakota Industrial
4 Commission)

5 DAN KLEMPPEL, Manager of Transmission Compliance
6 Basin Electric Power Cooperative (representing Basin
7 Electric Power Cooperative)

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1 P R O C E E D I N G S

2 (1:10 p.m.)

3 CHAIRMAN KELLIHER: Good afternoon. I don't have
4 a gavel. That will have to suffice.

5 (Laughter.)

6 CHAIRMAN KELLIHER: Good afternoon and welcome to
7 the Technical Conference here at the Commission, of the Cost
8 Allocation Methodology for High-Voltage Baseline Reliability
9 Projects in the Midwest ISO Region.

10 Today's conference is another step on fulfilling
11 one of the Commission's primary goals: Promoting the
12 development of robust energy infrastructure, more
13 specifically, encouraging regional electric system planning
14 to meet reliability and market needs.

15 The United States has a problem, currently, with
16 respect to under-investing in the transmission grid. We're
17 pursuing a number of solutions to the problem here at the
18 Commission, such as the transmission incentives rulemaking,
19 as well as upcoming transmission siting rules.

20 One thing this Commission can do to help solve
21 this problem, though, is to address cost allocation for
22 transmission expansions. The Commission has recognized that
23 there is more than one just and reasonable manner to
24 allocate costs for transmission expansion.

25 For example, the Commission has adopted different

1 approaches in New England, than in the SPP Region. We now
2 have yet a different approach, a third approach, presented
3 for the Midwest.

4 I think we should give deference to regional
5 transmission expansion cost allocation proposals. As a
6 practical matter, most transmission projects in the United
7 States, will likely continue to be sited under state law.

8 An approach for cost allocation for transmission
9 expansion that is not supported by the states in a region,
10 will likely forestall significant investment, right at the
11 time when it's most badly needed.

12 The genesis of the Midwest ISO's cost allocation
13 policies is found in the Midwest ISO's compliance filings to
14 the Commission's Final Rule on Standardization of Generator
15 Interconnection Agreements and Procedures.

16 In its compliance filing, the Midwest ISO chose
17 to implement the Commission's default transmission credit
18 provisions, but stated that it established a task force and
19 was committed to work with the organization of Midwest ISO
20 states in the development of a transparent set of rules for
21 determining the beneficiaries of system expansions, and
22 appropriately allocating related costs.

23 In our July 8, 2004 Order on the Midwest ISO's
24 compliance filings, the Commission encouraged the Midwest
25 ISO to work with stakeholders to develop a permanent pricing

1 policy, based on the organization of MISO states' principal
2 of payment for upgrades by parties that cause and benefit
3 from the upgrades.

4 Thus, the Midwest ISO's Regional Expansion
5 Criteria and Benefits Task Force was created to establish a
6 policy and process for effective and efficient transmission
7 expansion planning, including addressing baseline
8 reliability projects, those facilities needed to maintain
9 reliability, while accommodating ongoing needs of existing
10 transmission customers.

11 After approximately 19 months of arduous effort,
12 the transmission expansion cost allocation policy was filed
13 with the Commission on October 7, 2005.

14 Under the proposal, baseline reliability projects
15 in the Midwest ISO's transmission expansion plan, must meet
16 the following criteria in order to receive regional or
17 systemwide cost-sharing:

18 First, the baseline reliability project must have
19 a project cost of \$5 million or more, or, in the
20 alternative, the project costs must constitute five percent
21 or more of the transmission owners' net plan, as established
22 in Attachment O of the Midwest ISO tariff.

23 Second, once it passes the cost voltage
24 threshold, the baseline reliability project is subject to a
25 voltage criterion, in order to determine if there would be

1 systemwide components to the cost allocation.

2 For baseline reliability projects with a voltage
3 class of 345 KV and higher, the Midwest ISO proposed that 20
4 percent of project costs will be allocated on a systemwide
5 basis to all transmission customers, and 80 percent will be
6 allocated sub-regionally to all transmission customers in
7 the designated pricing zones impacted by the project.

8 For baseline reliability projects with a voltage
9 class of 100 KV to 344 KV, one hundred percent of the costs
10 are allocated sub-regionally.

11 On February 3, 2006, the Commission issued an
12 Order conditionally accepting the Midwest ISO's proposed
13 transmission expansion cost allocation policy.

14 However, due to concerns that the proposed
15 regional cost-sharing for baseline reliability projects of
16 345 KV and above, may be insufficient, given the reliability
17 impacts of such facilities. We conditionally accepted and
18 proposed regional cost-sharing, subject to further
19 modification and subject to refund.

20 We further ordered Commission Staff to convene
21 this technical conference to discuss the degree of regional
22 cost-sharing for baseline reliability projects of 345 KV and
23 above.

24 Today's technical conference provides to a broad
25 array of parties, the opportunity to express their positions

1 regarding the proposed cost allocation methodology for high-
2 voltage baseline reliability projects.

3 All this will hopefully lead the Commission to a
4 more informed determination on whether the regional cost
5 allocation for high-voltage baseline reliability projects
6 within the Midwest ISO's footprint, is just and reasonable
7 and not unduly discriminatory or preferential or otherwise
8 unlawful.

9 Just one reminder: As indicated in the Notices
10 of Technical Conferences, to the extent any party to this
11 proceeding feels it needs an additional opportunity to
12 inform the Commission on this issue, parties may file post-
13 technical conference comments by May 5th.

14 Also, if you have any comments or need assistance
15 during the conference, please see conference director, Eli
16 Massey. He's wearing the red badge and is in the corner.

17 (Laughter.)

18 CHAIRMAN KELLIHER: He's easily identified.

19 Again, thank you for coming to today's technical
20 conference. I know that discussing cost allocation on a
21 Friday afternoon is not normally on the top of anyone's
22 list --

23 (Laughter.)

24 CHAIRMAN KELLIHER: But at this time, I'd like to
25 ask my colleagues if they have any comments they want to

1 make. Colleagues?

2 COMMISSIONER BROWNELL: Gee, whiz, it sure was on
3 mine.

4 CHAIRMAN KELLIHER: Okay, let's start. Are you
5 going to be the Master of Ceremonies, Eli, or am I? Are we
6 going to start from right to left?

7 MR. MASSEY: Wherever you'd like to start.

8 CHAIRMAN KELLIHER: Let's start with Marty Blake.
9 If you could please introduce yourself before you speak, for
10 the benefit of the transcriber?

11 MR. BLAKE: My name is Marty Blake, Chair of the
12 Vertically-Integrated Transmission Owners Tariff Working
13 Group. I also --

14 CHAIRMAN KELLIHER: I'm looking at the program,
15 and aren't we supposed to start with Clair Moeller speaking
16 first? I realize that I'm the Chairman and I can change
17 things.

18 (Laughter.)

19 CHAIRMAN KELLIHER: But I don't want to change
20 this, so why don't we go in the proper order? Clair
21 Moeller, please, thank you.

22 MR. MOELLER: Thank you, sir. I guess we all
23 know now that I'm Clair Moeller.

24 (Laughter.)

25 MR. MOELLER: I'm Vice President of Transmission

1 Asset Management at the Midwest ISO. The employees that
2 slug through the stakeholder process, all work for me.
3 That's how I achieved this assignment.

4 As you suggested in your initial comments, we had
5 a 19-month process that, in the beginning, sought to find a
6 protocol to, on a project-by-project basis, allocate costs
7 and benefits.

8 That was a very difficult process, and the notion
9 of every project needing to go through that sort of
10 engineering analysis before costs could be allocated, was
11 troubling, particularly to the OMS, who, late in that
12 calendar year, suggested that we ask the Commission for an
13 extension, which the Commission graciously granted, for us
14 to go back to the drawing board and try to achieve what the
15 OMS characterized as a rough justice kind of cost
16 allocation, so that the beneficiaries and the costs are
17 allocated roughly correctly, but much more straightforward
18 to administer.

19 We relied on that advice, along with prior
20 Commission action in the SPP case, where we sought to take
21 some of the work they had done, and apply it to the Midwest
22 ISO.

23 In the case of the Midwest ISO, we have twice as
24 many line miles, three times as much load, and four times
25 the surface area as SPP, so the reality of the application

1 of their protocol to our footprint, required some
2 contemplation and adjustment, because of that wide
3 geographic region.

4 The scope of these projects, as pointed out, was
5 limited to the reliability projects. We're under a
6 Commission Order to return in June to talk about a more
7 robust application of cost-sharing around projects that are
8 premised more on economic outcomes, rather than pure
9 reliability.

10 It's also true that the Midwest ISO transmission
11 owners agreement has an obligation on the transmission
12 owners to also revisit base rates as part of the transition
13 period. My understanding is that there's activity ongoing
14 in that regard, and there will be that subsequent filing in
15 2007.

16 So, as we work through the details of how to do
17 appropriate cost allocation, I'd say that RECB I is the
18 first step of at least three steps that we're aware of that
19 we expect will continue to inform us in terms of how best
20 that might take place.

21 With that, I think I'll hold my comments, and
22 I'll wait for your questions.

23 CHAIRMAN KELLIHER: Thank you. Why don't we turn
24 now to Mr. Blake? I should say "return to Mr. Blake."

25 MR. BLAKE: As I said earlier, I'm Marty Blake,

1 Chair of the Vertically-Integrated Transmission Owners
2 Tariff Working Group. I represent Southern Illinois Power
3 Cooperative and Hoosier Energy on the MISO Transmission
4 Owners Committee, and have been involved in the RECB process
5 through its entirety, and have had the good fortune of
6 attending all the meetings.

7 One of the things in the horse business, is that
8 there are horses for courses. Some are bred and trained for
9 speed, some are trained and bred for distance. This 20-
10 percent postage stamp is the right horse for allocating the
11 cost of 345 KV and above reliability projects in MISO.

12 When we talk about a reliability project, we're
13 typically talking about something that when built, the
14 benefits tend to be in the neighborhood where the project
15 was built. We didn't build that project to move power 800
16 miles; we meant it to address some problem where we were not
17 meeting NERC criteria during the planning horizon, and the
18 benefits tend to accrue in the neighborhood where it's
19 built.

20 The cost allocation methodology that we came up
21 with as a compromise for reliability projects, tends to keep
22 costs in the neighborhood where they're built. That sub-
23 regional matrix was a really nice approach where the sub-
24 region kind of drifted.

25 It was dynamically determined, based on the

1 particular project being considered. There was
2 acknowledgement that there were some reliability benefits to
3 the region, as a whole. That's why the 20-percent postage
4 stamp was included.

5 One thing we recognized when we were discussing
6 this, is the reliability benefits to the system, as a whole,
7 were likely to be small, given the geographic scope of the
8 Midwest ISO, which Clair just mentioned a minute ago.

9 When we were discussing this, we had folks on the
10 East side of the system, say, in Ohio, concerned about,
11 well, I don't want to be allocated costs from clear out in
12 North Dakota and Minnesota; what's that about?

13 And you had folks out West saying just the
14 opposite, saying, well, you're going to be building a lot of
15 stuff out East, and we don't want to be allocated the cost
16 of those.

17 We went through a number of iterations. One was
18 taking a look at maybe applying this on subzones within
19 MISO. We drifted away from that and came up with this
20 approach, where it would be a regional submatrix that
21 allocated the bulk of the costs, with this 20-percent
22 postage stamp being applied for 345 KV and above.

23 That seemed to be a reasonable compromise.
24 People seemed pretty happy with that.

25 In exploring this compromise, one thing we found

1 is that that compromise fell apart when you deviated much
2 from 20 percent. When we got above 20 percent, people
3 started bailing on the compromise; when we got below 20
4 percent, people started bailing on the compromise, but at 20
5 percent, it seemed like the compromise held pretty firm.

6 On August 19, 2005, we had a meeting at MISO to
7 discuss the cost allocation methodology, and took a number
8 of votes. One was regarding the load ration share
9 calculation of the postage stamp component.

10 That was approved by a vote of 37 to eight.
11 These are by people that have been attending the meetings,
12 knew the issues, knew the problems that have been discussed
13 in this for months.

14 This is a process that went on for about 19
15 months from the time it started. That's about 82 percent.
16 That's a pretty good majority.

17 The package, as a whole, was approved by a vote
18 of 28 to 10, with seven abstaining. That's 73 percent of
19 those voting, so, again, it represents the majority of those
20 that have been studying these issues, have been involved
21 with these issues, and really thinking about these issues
22 and how this compromise fit together.

23 There are other pieces of the compromise that
24 we're not going to discuss today. This is just focused on
25 the 20-percent postage stamp piece, but we saw tremendous

1 diversity in those other components, and, again, when we got
2 to this 20-percent postage stamp, this is not a number where
3 anybody started. This is kind of where we finished.

4 Some folks wanted a zero postage stamp; some
5 folks wanted 100. By the time we got done with discussing
6 all these issues, some gave on one issue, some gave on
7 another, and the postage stamp seemed a pretty key
8 component, and we ended up at 20 percent.

9 It's a little hard to pick this one out and just
10 look at it separately, because of how much it was tied in
11 with the other issues in the discussion. But what I tried
12 to give you is a little bit of a sense of how we got there
13 in the process, and I'll be happy to answer any questions
14 you may have later.

15 CHAIRMAN KELLIHER: Thank you. Mr. Collins?

16 MR. COLLINS: Thank you. I'm Doug Collins,
17 Chairman of the Midwest ISO Transmission Owners Committee.
18 I'm also Vice Chair of the Advisory Committee.

19 I'm here today representing the Vertically-
20 Integrated Transmission Owners or VITOs. The VITOs are a
21 diverse group of utilities made up of investor-owned
22 utilities, municipal agencies, coops, and a coordinating
23 member.

24 They represent large utilities that have
25 significant investment in transmission facilities. They

1 also are represented by smaller utilities with more modest
2 investment in transmission.

3 As you might surmise, reaching agreement among
4 these parties with diverse interests, is no small feat. The
5 VITOs participated fully in the RECB process throughout its
6 almost two-year duration, and helped to develop the
7 compromise proposal that was eventually filed here.

8 That proposal had wide support among the RECB
9 task force members, as Marty alluded to. As the Commission
10 contemplates the information that it gathers today at this
11 technical conference, I believe there are four major items
12 you need to take into account:

13 First, you need to take into account that the
14 proposal was developed through an open process, with wide
15 participation from the various stakeholder groups within the
16 Midwest ISO.

17 The process considered many options as to how to
18 allocate cost responsibility for new reliability facilities.

19 Everyone had a chance to be heard. In the
20 beginning, the viewpoints varied from those that wanted 100-
21 percent participant funding, to those that wanted a large
22 postage stamp.

23 Both of these camps included, among others,
24 representatives of the state commissions. The culmination
25 of this long, arduous process, was the filing of a proposal

1 that had wide support of those that were involved in the
2 process.

3 That's not to say that everyone supported every
4 aspect of the filing, but it is to say that most felt that
5 the tradeoffs made in various aspects of the proposal,
6 allowed each party to claim victory for the items that meant
7 the most to them.

8 It's not a proposal of the lowest common
9 denominator, but it's one that was arrived at through
10 considerable give-and-take. For instance, using a 345 KV
11 bright line, allowed stakeholders who wanted no postage
12 stamp component, to accept a 20-percent postage stamp.

13 The creation of the exclude list, allowed others
14 to come onboard. There was no single item that brought
15 everyone together. It was the package that was filed, that
16 allowed the consensus.

17 While no one is likely to say that we have
18 created the perfect model, most agree that it's a step
19 forward and lays the foundation for future progress.

20 The second thing that I believe you must
21 consider, is the potential impact your actions may have on
22 future, similar processes within the Midwest ISO.

23 As I stated previously, entities accepted the
24 proposal in its package form. I greatly fear the impacts
25 that may occur, should you choose to change just one part of

1 that package.

2 I'm concerned, as we try to reach consensus in
3 the future, on issues of vital importance, such as this one,
4 entities will feel that there's no driver for them to
5 compromise, as the pieces they fought hard for, may be
6 changed counter to their interests and they will be left
7 with a product that is unacceptable and outside their
8 control.

9 The bottom-line impact may well be that the
10 incremental progress will have to be made through
11 litigation, instead of cooperation.

12 The third item I believe you must consider, is
13 that there are regional differences between the various
14 RTOs. For instance, while the Midwest ISO and PJM have
15 similar total load within their respective footprints, the
16 Midwest ISO covers almost six times the geographic area.

17 SPP is less than 40 percent the size of the
18 Midwest ISO, from both load and geographic standpoints.

19 The Midwest ISO has twice as many transmission-
20 owing members as PJM, and over twice as many as SPP. These
21 differences, and others, need to be considered when you're
22 looking at cost allocation. There is no one-size-fits-all.

23 For instance, when SPP undertook a similar
24 process, they came up with a 33-percent postage stamp. When
25 I look at the differences between the size of the overall

1 footprints, the number of transmission owners and other
2 items, it makes sense to me, based on my technical
3 background, that the postage stamp for the Midwest ISO
4 should be less than what was developed for the SPP
5 footprint.

6 The reliability benefits of a given facility
7 reduces, the farther away from that facility that you get.
8 Therefore, one would expect that a larger footprint would
9 have less average benefits to the footprint.

10 Finally, the fourth thing I believe you need to
11 consider, is that the Midwest ISO did perform the technical
12 analysis, based upon the Commission-accepted methodology
13 used in SPP.

14 This analysis demonstrates that the 20-percent
15 postage stamp component that was filed as part of the
16 overall package, is within the zone of reasonableness,
17 particularly after you take into account, the withdrawal of
18 LG&E. I'll allow Clair to go into more detail on that
19 proposal, as you submit questions.

20 (Laughter.)

21 MR. COLLINS: In conclusion, I will state that
22 for the various reasons I stated previously, I believe that
23 the proposal that was submitted as a package to this
24 Commission, which included the 20-percent postage stamp
25 component for the 345 KV and above new reliability

1 facilities, is a good approach, a regional approach for the
2 Midwest ISO footprint.

3 It represents a step forward in the evolution of
4 transmission pricing, and I respectfully ask that the
5 Commission approve the proposal, as it was intended, as an
6 intact package.

7 Again, I thank you for your time, and look
8 forward to your questions.

9 CHAIRMAN KELLIHER: Thank you, Mr. Collins.
10 Commissioner Gaw?

11 MR. GAW: Thank you, Mr. Chairman and
12 Commissioners, for the opportunity to be here today. As
13 Doug just stated, if you have any questions, I think I've
14 got somebody who will be glad to answer them.

15 (Laughter.)

16 MR. GAW: Randy is prepared for any questions
17 that may come up, right, Randy?

18 MR. RISMILLER: Thank you.

19 MR. GAW: You're very welcome. The RECB
20 stakeholder process was lengthy, difficult, and contentious.
21 Under those circumstances, consensus on a single cost
22 allocation proposal, was not likely. While the OMS members
23 all agreed that the existing RECB policy needed to be
24 changed, they split on several specific elements of the cost
25 allocation proposals.

1 In particular, OMS members could not reach
2 agreement on the percentage to be included in the regional
3 postage stamp rate for reliability upgrades. As a general
4 matter, MISO went with the majority stakeholder position on
5 various elements of the cost allocation proposal.

6 In some instances, specific elements were bundled
7 together by stakeholder groups, and presented as a proposal
8 to which the majority would not object, in order to achieve
9 overall acceptance for the package.

10 In regard to the position of the OMS, the OMS, as
11 a whole, did not specifically comment on MISO's proposal to
12 allocate 20 percent of the costs for 345 KV and above
13 project regional postage stamp rate.

14 On balance, the OMS generally supported most of
15 MISO's October 7th policy proposals, taken as a package. As
16 the Commission is aware, proceedings of this type, typically
17 include a significant amount of compromise on the part of
18 stakeholders.

19 Some OMS members fear that if the Commission
20 opens specific aspects of this package, the entire package
21 could unravel.

22 MISO's rough justice approach arose from MISO's
23 belief that, quote, "There are many potential benefits of
24 transmission system expansions, and many possible ways we
25 can calculate these benefit impacts."

1 "Each of the possible means to evaluate potential
2 benefits, requires a set of assumptions of varying
3 complexity, about future conditions, giving rise to the
4 measured impacts of the upgrades, with the potential for
5 considerable dispute of these assumptions."

6 That's a quote from MISO's October the 7th RECB I
7 filing. As examples of measures of benefits related to the
8 percentage of costs to be allocated to a regional postage
9 stamp rate, MISO performed two types of studies, as I know
10 you are all aware:

11 One is the power flow method, which attempts to
12 determine what percentage of the internal system is impacted
13 by the dispatch of a single zone's generation to that zone's
14 load.

15 Both the MISO and the SPP have performed power
16 flow studies. The results of the MISO study showed 44
17 percent external flows on other zones, compared to 33
18 percent in the SPP study.

19 It is worth noting that MISO ran its variation of
20 the SPP study, and calculated 39 percent external flows for
21 the SPP region. I'll get back to that in a moment.

22 In the dispatch method, the second method, it
23 attempted to represent how much of each zone's system is
24 used by all other systems in a market flow condition, as
25 compared to a confined zone condition.

1 This approach showed only a 20-percent increase
2 in megawatt mile flows from the market-based dispatch.

3 It is important to note that these results are
4 averages over a very large regional footprint. In its
5 analysis, the MISO calculated results for subregions of
6 MAPP, MAIN, and ECAR.

7 In both the power flow method and the dispatch
8 method, calculations for the MAPP region had a significantly
9 higher percentage of external flows on other zones, and
10 increased megawatt mile flows, than the average calculated
11 for the entire MAPP, MAIN, and ECAR regions.

12 This meant that the other two subregions were
13 significantly below the overall average. In particular,
14 power flow results for MAIN were 20 percent; ECAR, 25
15 percent. The footprint average was 44 percent.

16 Similarly, the dispatch method results showed
17 that MAIN was at 12 percent and ECAR at ten percent. The
18 footprint average was 20 percent.

19 The above is just background analysis for the
20 MISO proposal. In this regard, the Commission ought to take
21 several factors into account: First of all, there is no
22 clear explanation as to the difference between the SPP and
23 MISO results for the SPP system.

24 The difference appears to be in the assumption
25 made in the MISO's calculation, that generation within a

1 zone is serving load in the same zone, and MISO's
2 calculation would not have taken into account, megawatt mile
3 flows on facilities having transmission agreements for
4 generation serving load, not in the same zone.

5 Secondly, the importance of subregional
6 differences within the large MISO footprint, cannot be
7 overstated. When one of the subregions is significantly
8 skewed above the average, it becomes more difficult to
9 justify a regionwide postage stamp rate based upon the
10 average analytical results.

11 If the Commission were to examine the MAIN and
12 ECAR studies, the range of benefits go from a low of ten
13 percent in ECAR, with the dispatch method, to a high of 25
14 percent in ECAR, using the power flow method.

15 Third, there are OMS members that support using a
16 strict beneficiaries approach. Such an approach is not
17 reflected in the rough justice approach, when an average is
18 used to allocate costs on a load ratio share basis.

19 Moreover, it may be of importance for some states
20 to consider the benefits from reliability projects included
21 in the MISO transmission expansion plan.

22 With respect to the beneficiaries approach, RECB
23 II is discussing cost allocation methods, based on metrics
24 of benefits relative to regionally-beneficial transmission
25 upgrades. Metrics such as load benefits and production

1 cost benefits, will rarely show a regionwide benefit for an
2 individual project.

3 It may be of importance for the Commission to
4 consider whether such benefit metrics, when applied to
5 reliability projects, in total, result in cost allocations
6 that are consistent with allocating a percentage of
7 reliability projects on a regionwide postage stamp basis.

8 When evaluating regionally-beneficial projects,
9 it is difficult to determine which projects to consider.
10 For example, should only generation that is currently
11 installed, be included when projected benefits go out for
12 ten years?

13 On the other hand, reliable delivery of
14 electricity from new network resources, is fundamental.
15 Ultimately, it may be the least disruptive for the
16 Commission to simply allow the 20-percent allocation to
17 remain in effect, but to direct MISO and its stakeholders to
18 reexamine the issue.

19 After the Commission adopts an Order on MISO's
20 expected June 1, 2006 RECB II filing on economic upgrades.
21 If there are any questions, I'll be glad to ask Randy to
22 answer them.

23 (Laughter.)

24 CHAIRMAN KELLIHER: Thank you very much. Randy?

25 MR. RISMILLER: Good afternoon. My name is Randy

1 Rismiller and I'm on the staff of the Illinois Commerce
2 Commission. But in my capacity here, I'm with the OMS. I
3 chair their working group that worked with the RECB task
4 force, MISO's RECB task force on this project, and continue
5 to hold that capacity in the RECB II part of the process.

6 I don't have any prepared remarks here, I don't
7 have anything to add to what Commissioner Gaw has provided.
8 It was a difficult and contentious stakeholder process
9 within the MISO, and, quite frankly, within the OMS Working
10 Group.

11 There was distinct divergence of positions. The
12 words, "package proposal," have come up by nearly all
13 speakers, and that, indeed, was the case at the working
14 group, the OMS Working Group level.

15 It was arrived at -- the OMS's position was
16 arrived at in that flavor of a package, so with that, that's
17 all I will add.

18 CHAIRMAN KELLIHER: First of all, I want to thank
19 everyone in this panel for being here and helping us on a
20 Friday afternoon. My earlier comment was very much from our
21 perspective, but I want to thank you from us. Traveling on
22 a Friday, I'm sure is not convenient for many of you, and I
23 want to thank you for being so efficient. We are running a
24 few minutes ahead, and that will give us more time for Q&A.

25 My colleagues and then Staff will ask the

1 brilliant questions one more time, I'm sure.

2 I just wanted to ask Commissioner Gaw, really,
3 from the perspective of just the states, just the state
4 commissions, not the stakeholders, looking at the two polar
5 ends, rolling in everything, do states fall into those two
6 categories? Are all the states really in the middle?

7 MR. GAW: Excuse me, Mr. Chairman, but all the
8 states are not just in the middle. I think what we have
9 here is basically that most of the states are willing to say
10 this package is something we can live with.

11 We have states that are more inclined to suggest
12 that we should be just examining who benefits, and that
13 should be the way we allocate these costs.

14 There are some states that would push somewhat in
15 the other direction and look for a little more socialization
16 of the costs.

17 I think that in regard to this particular
18 picture, the states, again, are willing to say that this is
19 a compromise we can live with.

20 I think it's also important to note that some of
21 the comments I have heard in regard to the RECB II process,
22 are that it's becoming perhaps a little clearer, what
23 methodologies and tests might be able to be used to
24 determine who actually is benefitting.

25 There might be some additional confidence that

1 might come out of that RECB II process. If that occurs,
2 perhaps all of this can be reexamined in that light.

3 But at this stage and where we are today, I think
4 it is one of those things whereas, as has already been
5 stated down the line here, this is an area where most of the
6 states can say, okay, we can do this at 20 percent, as part
7 of the overall package that was submitted to FERC.

8 CHAIRMAN KELLIHER: I wanted to ask a question
9 using Mr. Blake's horse metaphor.

10 (Laughter.)

11 CHAIRMAN KELLIHER: But why doesn't the SPP horse
12 -- why can't it run in the Midwest? Clair said it wasn't
13 necessarily your starting point, but that was something you
14 looked at in the course of developing your approach.

15 Commissioner Gaw really tried to address a bit,
16 why it doesn't fit, but I just wanted to understand a little
17 bit better, why wasn't that something the region accepted?

18 MR. BLAKE: It's got a different geography than
19 the Midwest ISO. I think that's a big chunk of it. It's
20 more compact, not quite as large, geographically.

21 The Midwest ISO extends a long distance. It's
22 easily over a thousand miles East to West. When you've got
23 a region that large, there's a tip-of-the-hat to the fact
24 that any project probably helps system reliability, but when
25 you've got a system that big, something you do in one area,

1 is very far removed and unlikely to produce many reliability
2 benefits in another part of the region.

3 That's why I used the horses-for-courses analogy.
4 For them, that makes all the sense in the world. I'm not
5 knocking what they did; I'm not saying it's a bad thing.
6 For them, that worked; for us, this works.

7 CHAIRMAN KELLIHER: You were saying it's more
8 compact and an investment in a certain part of SPP is more
9 likely to have reliability benefits throughout the region?

10 MR. BLAKE: That's it. As we said, the
11 methodology, on the whole, that we adopted for reliability
12 projects, tends to keep costs in the neighborhood where they
13 are built. They are shared, but they're kind of like shared
14 in the neighborhood.

15 The problem that we get is, some of our
16 neighborhoods are pretty far apart, and they're a little
17 tighter than some of the other RTOs that might justify
18 higher postage stamp percentages there, where, for us, it
19 might be a lower number.

20 CHAIRMAN KELLIHER: Clair?

21 MR. MOELLER: In the analysis we did that
22 Commissioner Gaw referred to, we broke the Midwest ISO up
23 into essentially three regions about the same size as SPP
24 for our analytics.

25 The different kinds of results revealed in the

1 most recent work we did, a 19-percent, a 20-percent, and a
2 63-percent sharing of each other's system.

3 In the old MAPP region, there is an overlay of a
4 footprints for the participants. There is an historic
5 sharing of investment, and an historic sharing of the
6 geographic real estate in that region, which skews that
7 region significantly in terms of whether that particular
8 methodology makes sense to average across the whole system.

9 The distribution allocation factor of reliability
10 benefits is a good method that keeps most of the sharing in
11 zones that are similar in size to the SPP system, but allows
12 us to transition between zones, as those projects cross
13 across the various geographic regions inside the Midwest
14 ISO.

15 MR. BLAKE: Just to add to that for a minute,
16 when we're going through the RECB process, one way of
17 avoiding the sharing over a very large geographic area, is,
18 people suggested exactly what Clair is talking about. How
19 about we break it up into three or four subzones?

20 Then we got into arguments about what are they?
21 You know, where do you draw the line?

22 That proved to be pretty tough. That's why we
23 ended up not going in that direction. It was just pretty
24 tough to figure out what the zones were.

25 COMMISSIONER BROWNELL: Could you say more about

1 that? I'm hearing you talk about what effectively sounds
2 like zones for purposes of your analysis, but that you
3 drifted away from it. I'd like to get just a better handle
4 on that issue, for whomever.

5 MR. MOELLER: Sure, if I might, the analysis that
6 resulted in RECB, essentially took three steps: One was the
7 integration analysis that looked at the subregions inside
8 MISO, to see how much of each other's system it used.

9 That was the power flow and the dispatch test
10 we've talked about. We also did another analysis that
11 looked for an indicator as to whether or not it was
12 appropriate at all, to share costs across a broader MISO.

13 For that analysis, we used an economic test that
14 looked at load LMPs. The only thing we used that test for,
15 was to assure ourselves that investment in the MAPP region
16 did, in fact, show benefits in Ohio.

17 We didn't use that test for anything else, other
18 than to assure ourselves that it made sense to share those
19 large 345 KV and up projects across the entire footprint.

20 The third step was the allocation investigation
21 that looked at how much should be a postage stamp, how much
22 we should share on a more -- we say "local," but the regions
23 are quite large.

24 And then, how can we deal with the boundary
25 issues, if we define the region? So, the distribution

1 factor was our method to allow us to not define a specific
2 region inside the Midwest ISO, so that a transmission line
3 that would be from Iowa, which is historically in the MAPP
4 region, to Illinois, which is historically in the MAIN
5 region, we needed to construct a method that allows us to
6 share those costs along with those benefits, in what would
7 have historically been an interzonal boundary.

8 MR. COLLINS: Just to add one thing, that is, the
9 proposal that was submitted, could be looked at, because of
10 the way it's set up with 20 percent across the footprint,
11 but the rest allocated by distribution factors.

12 What you really end up with, is floating regions.
13 You're taking the circle around the project, rather than
14 having defined boundaries. Then you have to deal with
15 boundary issues.

16 COMMISSIONER KELLY: Did the stakeholders have
17 any goals in coming up with this cost allocation
18 methodology?

19 MR. COLLINS: To survive.

20 (Laughter.)

21 MR. BLAKE: To end a 19-month ordeal, was the
22 main goal.

23 COMMISSIONER KELLY: But there was no
24 transmission planning goal or ensuring that transmission
25 gets built goal, or making sure that the areas that don't

1 have sufficient transmission today, got transmission built
2 for it, or ensuring that the areas that are going to be
3 experiencing growth in the future, have transmission built?

4 MR. BLAKE: There was recognition that
5 transmission definitely needed to be built and for
6 reliability projects, the way those are defined, is,
7 projects that are needed to meet NERC planning criteria
8 during the planning horizon.

9 We regarded those as have-to-have projects;
10 you've got to do them. So, because we have to do them to
11 meet NERC criteria, we just figured, suck it up and figure
12 out a way to allocate the costs.

13 That's kind of what drove this, is, there was a
14 recognition that these projects were needed, they had to be
15 built, and we had to figure out a way to, as fairly as
16 possible, allocate the costs.

17 With all the disagreements that came up on a
18 number of issues, what we were really trying to do, was get
19 something that was acceptable to the widest range of
20 stakeholders possible, that would fund the needed
21 transmission additions.

22 They've got to be built; we recognize that; we're
23 looking for a way to fund them.

24 COMMISSIONER KELLY: You talked about the package
25 that was presented. Could you summarize what the elements

1 of that package were?

2 MR. BLAKE: I'd be happy to. The package started
3 out -- there's a threshold, initially, for regional sharing.
4 That threshold is \$5 million in project costs or greater
5 than five percent of the transmission owner's net plant.

6 That was to protect the smaller entities. If it
7 met either of those thresholds, it was considered for
8 regional cost-sharing.

9 The second one, it had to be a 100 KV line or
10 greater. Lines lower than 100 KV were not seen to produce
11 regional benefits.

12 So, it had to be greater than 100 KV. For lines
13 that were greater than 100 KV and less than 345, the sharing
14 was 100 percent, based on this subregional matrix,
15 calculated using line outage distribution factors.

16 Where we saw that as a real advance, where that
17 really got us out of the weeds, is as Doug described. It
18 defined the neighborhood on a dynamic basis, on a floating
19 basis, kind of centered on the project.

20 That really helped, because, before, people are
21 arguing, you know, what are the right zones? And, by
22 letting the zone float, based on the project, that really
23 kind of calmed everybody down.

24 So, between 100 KV and less than 345, it was 100
25 percent subregional. There was an awareness that for lines

1 345 KV and above, they would produce some benefit to the
2 system as a whole, but there was concern among a number of
3 the parties, some of the folks thought, we're such a big
4 region, the right amount of regional sharing is zero; it
5 shouldn't share any.

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1 There are others who said no, we shouldn't, or we
2 ought to share everything. So where we ended up was 20
3 percent. For 345 kV and above, it's 20 percent postage
4 stamp and 80 percent subregional. We've got that floating
5 neighborhood.

6 Another part of the compromise was the
7 participant funding percentage. That varied between zero
8 and 100 percent. When you talk to different participants,
9 the give and take that got us to 50/50 was an important part
10 of the compromise. The exclude list was an important part
11 of the compromise. Folks thought that if we start from a
12 level playing field, if we start everybody in about the same
13 position, nobody's catching up, that this will work pretty
14 well. So folks were willing to accept the 20 percent
15 postage stamp if we started from projects with MTEP 2006 and
16 later.

17 On any of these issues, if you just took the
18 issue by itself, it would be at polar opposites on a lot of
19 these issues. When we packaged it and put all the pieces
20 together, we got something that was acceptable to about
21 three-quarters, pretty close to three-quarters of the
22 stakeholders who were following the issue, folks that had
23 really be attending the meetings and conversant with what
24 was going on.

25 COMMISSIONER KELLY: The subregional floating

1 zones, those sizes of those subregional zones, are they the
2 same from project to project?

3 MR. BLAKE: Clair, I'm sure, would be in a better
4 position to address this one. That's more physical impacts,
5 and it's kind of a measure of how electrically connected the
6 zones are. And I think I'll turn to a real pro on this for
7 help.

8 MR. MOELLER: I think you did fine. Essentially
9 what happens is, as you look at the transmission system and
10 you add an element, it changes the electrical
11 characteristics of the system. The load outage distribution
12 factor is an assessment of how big the circle is that you've
13 changed the electrical characteristics. So if it's a very
14 large project in terms of its size, it will have a large
15 footprint that it impacts. If it's a short, small project,
16 it's likely to have a small impact.

17 COMMISSIONER KELLY: By "large," you don't mean
18 that kV rating?

19 MR. MOELLER: Physically, yes.

20 COMMISSIONER KELLY: Can you talk about, on
21 average, how are those -- how big are they on average? Is
22 it like a fifth of MISO or is it like a 50th?

23 MR. MOELLER: There are 27 different balancing
24 authorities in MISO. The preliminary work we've done, it's
25 rare where one of these projects doesn't involve cost

1 sharing between three of them. So it's in the three to
2 seven kind of range is the normal kind of range around what
3 that sharing will be.

4 COMMISSIONER KELLY: In looking at the projects
5 that are on the drawing board, the reliability projects for
6 the 80 percent cost going within the subregion, what's the
7 kind of cost impact that those transmission owners are going
8 to feel?

9 MR. MOELLER: In our current plan, we've
10 identified about \$3.7 billion of investment through about
11 2011. Of that \$3.7 billion, about \$1.4 billion is at 345
12 kV, which would make about just short of \$300 million. It
13 would be cost shared across the entire footprint in the
14 postage stamp, which leaves us the residual amount of --
15 however that arithmetic works, \$3.4 billion is shared on
16 that more local basis. That's all the project at 100 kV and
17 up.

18 But in terms of the effect on any individual
19 balancing authority, until we do the actual arithmetic --
20 which we haven't done, because at this point we haven't had
21 to address that issue. We've also got some issues we need
22 to deal with administratively on how you get the costs from
23 where they're incurred into individuals' tariffs.

24 We're plowing some new ground there on the
25 electric side. We're asking our states to acquiesce to

1 costs that are incurred in other states, in other
2 jurisdictions, so that they need to rely on their neighbors
3 to judge both the prudence of the investment in terms of the
4 cost control and the need for the investment. It's not an
5 insignificant policy shift on behalf of the states as we
6 work through this cost sharing.

7 COMMISSIONER KELLY: To flow it through like
8 Kansas' legislation?

9 MR. MOELLER: Gotcha.

10 (Laughter.)

11 MR. BLAKE: Steve, you're it.

12 MR. GAW: Thanks a lot.

13 Commissioner, I think you've raised a very
14 important point. In this regard, being a member of both the
15 regional state committee in SPP and MISO, I've walked
16 through this process now twice.

17 SPP's process was intensely involved with the
18 regional state committee. As you all probably recall, that
19 issue is of significance, especially to states that are
20 particularly oriented to -- and vertically-integrated
21 states. We want to ensure that these benefits can be given
22 to our ratepayers, or else why should we pass them along.

23 The more, in vertically-integrated states, that
24 you press toward spreading costs region-wide, the more
25 strain there gets to be on the question of whether or not

1 those costs ought to be passed along to the retail side.
2 That will come up in these rate cases in front of the
3 states.

4 In the SPP case, we arrived at that figure of 33
5 percent in part based upon some flow studies that justified
6 it, but also in part based upon compromise. We have -- and
7 I don't want to particularly bring out states in that region
8 that were in particular positions, but we had at least one
9 state that was very adamant about wanting a postage stamp
10 rate applied for all of it. But a significant number of the
11 other states were working toward a true beneficiaries test,
12 where there was no socialization. We ended up where we were
13 in part because there was some demonstration of the fact
14 that there was some rationality to it, also some willingness
15 to try to find a way to get transmission built.

16 Somebody raised that earlier; maybe it was you,
17 Commission Brownell. I can't remember. I think some of us
18 -- and I will say this on my behalf only. I think I see
19 this as an important step in getting transmission built
20 that's needed in having a cost allocation method that works
21 and in having a beneficiary pays model that people say they
22 can live with.

23 In looking at what happened in this particular
24 case with MISO, I think we sort of see the same thing. In
25 an area that is as large as MISO is, there is justification

1 for having a figure at a different amount when you're trying
2 to explain to a state how -- in Ohio, how a project in
3 Montana is going to positively impact them -- maybe Ohio is
4 a bad example.

5 But when you're looking for a justification in a
6 vertically-integrated state, it gets more difficult. You
7 have more problems in dealing with that as individual rate
8 cases come along, getting buy-in on a compromise should not
9 be ignored as a value to this. Whether it's a compromise or
10 at least something that the majority could support, I think,
11 is of significance.

12 MR. BLAKE: If I could add something to
13 Commissioner Gaw's comments. He's right on target.

14 One of the big issues that came up when we were
15 talking about this was cost recovery. People felt a lot
16 more comfortable about recovering costs at the state level
17 if it was 100 percent submatrix. I've got numbers that I
18 can take in for that project. We said it's project-
19 centered; I can take those numbers in for that project to my
20 state commission and show you the electrical impact, the
21 positive electrical impact that had on me. That's good
22 stuff.

23 When you talk to folks about justifying that 20
24 percent postage stamp or any postage stamp, that's where
25 they got kind of nervous for exactly the reason that

1 Commissioner Gaw pointed out. People were asking, what if
2 they ask me what's the benefit of this project? That's 8-,
3 900 miles away, how do I justify that?

4 So cost recovery would have been a heck of a lot
5 easier if it was all subregional matrix, but there was some
6 acknowledgement that there needed to be a kind of a tip of
7 the hat to the systemwide impacts on the larger lines.
8 Again, that was how we got to that part of the package.

9 COMMISSIONER KELLY: Was there any thought given
10 to any situation that might come up that would present sort
11 of an anomalous result? It sounds to me like the process
12 you went through, you figured that most of the projects that
13 come up will be able to be funded and paid for without any
14 major fly-up in transmission costs in the subregions. But
15 what if there were one? Would you reconsider allocating
16 some of the costs more broadly?

17 MR. MOELLER: If I may, among the conversations
18 that we're engaged in quite deeply in the second half of the
19 regional expansion criteria and benefits process, or RECB,
20 we are working hard to try to understand on a more economic-
21 based criteria how we could adjust those allocations to more
22 appropriately match who benefits and who pays.

23 It is our expectation that, for an example, a
24 significant project that would connect a thousand megawatts
25 of wind generation into Illinois would have a significant

1 effect on the resultant LMPs all the way from North Dakota
2 to Illinois -- on its way. It would be logical to use the
3 20 percent postage stamp as the way you shared those
4 benefits.

5 It would also be logical in that case to use the
6 distribution factor kind of approach, because the premise of
7 the project won't have been reliability, it will have been
8 end use load cost effects of being able to bring, in that
9 case, in the example, wind -- as you know, the energy
10 component is free -- into the marketplace.

11 So as we're working through the second half of
12 the RECB process, we're trying to be very conscious that
13 there should be projects that expand the scope and expand
14 the reach across the whole of MISO and that those costs
15 appropriately should be shared by who benefits. As you can
16 imagine, the same entertainment we had in RECB 1 we are
17 currently enjoying in RECB 2.

18 MR. BLAKE: Just to add something to what Clair's
19 talking about, this was the first several months of this
20 process. How do you handle reliability and economic?
21 Because people would bring up -- and they had a good point --
22 -- that there are some reliability impacts of economic
23 projects and some economic impacts of reliability projects.
24 And you can give them that one and say great, now what do we
25 do with it?

1 Because when you're talking about an economic
2 project, okay, and you want to add in the reliability
3 benefits, monetizing the reliability benefits is hard. I
4 mean, it's real hard. Okay. What is not having an outage
5 worth? Putting a number to that just isn't real easy.

6 On the other side, if you're building it
7 primarily to meet NERC planning criteria, we've got to do it
8 for that reason and we're going to throw in some dollars,
9 you know, some economic impacts. How do you add the two?
10 How do you add the fact that I have to do it for NERC
11 reasons, for one thing, and there are dollar impacts on the
12 other, you know. How do I allocate costs on that?

13 That's kind of why we've kept them separate, you
14 know. We took the easier one first because reliability, we
15 had to do it to meet NERC planning criteria. And because we
16 had to do it, we knew we were under the gun to come up with
17 a cost allocation methodology that would fairly allocate
18 those costs. Not everybody may like it, but we figured, you
19 know, you just bite the bullet and do it.

20 When you try and get those two separate kind of
21 benefits, they're not additive. It's very difficult to make
22 them additive, to come up with some common unit of measure
23 where you can come up with a basis for allocating costs with
24 some additive allowed.

25 MR. GAW: Mr. Chairman, if I could, just real

1 briefly, a point of clarification. I want to make sure it's
2 understood that I think we put in our comments when we filed
3 on this initially that the states did not sign off on this
4 agreement saying we would agree to pass through those costs.
5 That would not have been possible for us to do as OMS. But
6 I think it's important to note that those comments were
7 made, the general comments were made in a more positive
8 fashion in regard to the filing.

9 MR. MOELLER: If I could, I'd like to provide
10 some context around the differentiation between reliability
11 and economic. It is accurate that all projects have
12 attributes, value drivers, in both categories. One of the
13 things that has happened nationally across the last 20 years
14 is our transmission planning criteria have been premised on
15 the capacity planning or reliability side. In the
16 formative part of our EHB grid, that transmission was
17 constructed, in most cases, because of large baseload
18 generation stations. The capacity required to deliver those
19 baseload generation resources also provided a benefit in
20 terms of delivered energy costs to the consumers. What
21 we've decoupled across the last 20 years is that recognition
22 of the delivered cost of energy as a significant attribute.

23 As we're moving inside the Midwest ISO in the
24 current Midwest ISO expansion planning and its corollary,
25 the cost allocation of RECB 2, we are reintroducing that

1 energy component into the planning criteria.

2 There are a lot of very interesting engineering
3 challenges that result from needing to extend your planning
4 horizon out to timeframes beyond when generation projects
5 have been announced. That's part of the interesting
6 engineering and economic work we're doing.

7 But it's that recognition that a transmission
8 line has multiple value drivers and that we, as an industry,
9 have been behind the curve a little bit in terms of having
10 good tools to evaluate those economic outcomes is part of
11 why this is a fairly lengthy and engaging process.

12 CHAIRMAN KELLIHER: I just wanted to get an idea
13 really on the extent of the investment you're going to have
14 to make on reliability projects. To some extent, I assume
15 they're not evenly distributed throughout the region. Are
16 they more heavily concentrated in certain parts of MISO?

17 MR. MOELLER: The current portfolio of
18 reliability projects that have been identified in the
19 Midwest ISO footprint through the timeframe of 2011 account
20 for about \$3.7 billion of investment. That's investment
21 from 100 kV up. In general, they are evenly distributed
22 across the entire footprint.

23 At this point in time in the investment cycle,
24 we're seeing aggressive investment in Wisconsin and
25 Michigan. Both of those states are taking steps to ensure

1 that their system is adequate. They're very aggressive at
2 doing a very good job.

3 CHAIRMAN KELLIHER: In those states, is it below
4 345 kV typically?

5 MR. MOELLER: Predominantly it's below 345 kV,
6 although in both states there are proposals for 345 kV
7 facilities and, in at least one case, a high-voltage DC
8 facility is on the drawing board.

9 In both Michigan and in Wisconsin because of the
10 physical attributes, geography, transmission corridors are
11 somewhat scarce; they only have one direction to bring
12 transmission from. So that's caused some planning
13 challenges and some electrical anomalies in those cases.
14 But as those issues have been recognized across the last
15 three or four years, there's a lot of investment currently
16 planned on taking place in the rest of the region. I'd say
17 two or three years behind that is when the preponderance of
18 that investment is anticipated. But by the time you get
19 through the five or eight year horizon, we're seeing a
20 fairly even distribution of investment across the footprint.

21 CHAIRMAN KELLIHER: That's interesting. I'm
22 going to speculate about something, and hopefully you can
23 tell me if it's wrong or right.

24 Investment is roughly levelized and the concern
25 about rolling in everything isn't so much cost shifts but

1 it's cost recovery by the state-regulated utilities. It
2 wouldn't be easy for them to demonstrate that those were
3 prudent investments if everything was rolled-in?
4 more That's interesting. I'm going to speculate about
5 something, and hopefully you can tell me if it's wrong or
6 right.

7 Investment is roughly levelized and the concern
8 about rolling in everything isn't so much cost shifts but
9 it's cost recovery by the state-regulated utilities. It
10 wouldn't be easy for them to demonstrate that those were
11 prudent investments if everything was rolled-in?

12 MR. MOELLER: The cost shift and the cost
13 recovery are more or less the same question. To the degree
14 that load dense areas tend to accept costs when you
15 socialize them, there's concern in those load-dense areas
16 that they may not be benefiting effectively from needed
17 facilities in low load-density areas, but the cost per
18 customer is substantially different in the low load-density
19 areas. So the concern is that that socialization, while the
20 investment profile is similar, the investment per customer
21 profile is quite different.

22 CHAIRMAN KELLIHER: I'm going to ask Staff --
23 oh --

24 COMMISSIONER KELLY: I just had one last
25 question.

1 In looking at the benefits, do you look at the
2 negative benefits if you will? It's clear you looked at the
3 positive benefits, but what about the benefit that you get
4 from the other area not degrading its reliability?

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1 Did you look at that? If my neighbor doesn't
2 upgrade then that will have an impact on me.

3 MR. MOELLER: Yes, ma'am. The acceptance of the
4 20 percent postage stamp was premised on two things. One is
5 the economic attributes that we could show. The other is
6 the implicit reliability benefits that were acknowledged by
7 the predominance of stakeholders.

8 COMMISSIONER KELLY: That everyone is
9 interconnected; we're all in this together.

10 MR. MOELLER: The difficulty is one that Marty
11 pointed out earlier, how you value that in terms of how much
12 sharing there should be, it was acknowledged as an important
13 attribute. It was acknowledged that the whole system should
14 be kept up. But how to quantify what that meant in terms of
15 a sharing methodology was elusive.

16 COMMISSIONER KELLY: Thanks.

17 COMMISSIONER KELLIHER: Staff, do you have
18 questions?

19 MR. CANNON: Coming back to the 3.7 billion
20 that's kind of on the table in terms of reliability types of
21 upgrades, did I correctly understand that as you went
22 through this analysis you went project-by-project to sort of
23 look at where the benefits of each particular project
24 flowed, or not?

25 MR. MOELLER: We've not yet done that analysis.

1 The notion was we took a representative subset,
2 tested that subset to see if the methodology would occur
3 appropriately. We concluded that it was an appropriate
4 methodology. So upon approval, that's how we would move
5 forward to allocate the cost of those projects. But we did
6 not do this analysis against the entire \$3.7 billion.

7 MR. BLAKE: Just to add to that, when we started
8 out the process we were trying to come up with some measure
9 in dollar terms, some basis for allocating. And as we
10 attempted to do that for these reliability projects and were
11 trying to monetize them we were really getting stuck. This
12 was problematic. What finally got us out of the weeds is
13 the recognition that we could allocate these dollars based
14 on electrical characteristics of the system, which people
15 tended to agree on.

16 When it came to the line outage distribution
17 factors what they meant and how it kept the costs in the
18 neighborhood and yet still shared them, and how that kind of
19 moved around with the project, that's honestly what got us
20 out of the weeds is: stop trying to do it in dollar terms.
21 Just recognize that you've got to do these projects to meet
22 NERC reliability criteria and get done allocating the costs
23 fairly.

24 The bulk of those costs allocated with that sub-
25 matrix based on line outage distribution factors, people

1 thought that was pretty fair. When we quit doing it in
2 dollar terms things got a lot easier.

3 MR. CANNON: I'm just trying to get a handle on
4 sort of how abstract that is or how average it is, and
5 whether when individual states are going to be faced with
6 the prospect of, okay, well here's a particular project that
7 we need to build and, by the way, here's how the costs are
8 going to fall out based on this formula that's been
9 developed, will there have been sufficient linkage back to
10 really where the benefits of that particular project flow or
11 don't flow.

12 MR. MOELLER: If the project is premised purely
13 on a capacity driven requirement -- let me talk about what
14 that means.

15 That means a transmission element that has a
16 dispatch solution no matter what that dispatch solution
17 might cost. So there are no economic attributes around
18 that. It's purely 'can you deliver energy in an emergency'
19 kind of calculation. That's a very straightforward
20 analytical technique that's been used for many decades. So
21 it's a very repeatable process.

22 The place where it becomes more interesting in
23 terms of how to describe the value is as we begin to
24 integrate that capacity component, which is straightforward
25 with the economic components, which are much less

1 straightforward, over time it is my expectation that there
2 won't be what I consider a false dichotomy between a
3 reliability project and an economic project. That is truly
4 a false dichotomy.

5 But what we can agree on at this point is that
6 capacity can be the primary driver. And if it is a
7 sufficient value driver you can ignore for the time-being
8 the economic attribute and proceed with the investment based
9 merely on the capacity requirements. That's what RECBI 1
10 does.

11 MR. CANNON: In RECBI 2, is that then going to
12 come back and revisit the formulas and algorithms associated
13 with the 3.7 billion? Is there a new package that will need
14 to be considered?

15 MR. MOELLER: There will be a new package that
16 needs to be considered. The parameters of that package are
17 still in flux.

18 Among the things that we are contemplating is a
19 similar kind of strategy that has an allocation of the
20 projects to a postage stamp and an allocation inside that
21 same project to economic parameters such as load LMP, such
22 as production cost changes, so at the end of the day you can
23 conceive of a project whose value-drivers include economics
24 and reliability where the portfolio of allocation engines,
25 if you will, would be the postage stamp component that's

1 based on the rough justice kind of scenario because it's
2 very difficult to determine over the 40 year life of a
3 project who the beneficiaries are. You can pretty well
4 define it up front.

5 But as the project ages that definition becomes
6 more difficult. That argues for the postage stamp component
7 because who values a product changes over time.

8 There's a defined-benefit kind of analysis.
9 Load LMPs is a really good example of that where for a short
10 time horizon you can define fairly specifically who might
11 benefit. Then you've got reliability attributes that would
12 be a component of these LODFs. Whether we could replace the
13 LODF where the economic parameter is something that we're
14 pursuing, we'd like to make this more simple rather than
15 more complicated.

16 But at this point in time we're prepared to
17 contemplate a package that would include trying to value in
18 terms of how you'd allocate costs, those various value-
19 drivers as to why you might construct a transmission line.

20 MR. CANNON: As you move through that process it
21 certainly strikes me that over time things that might be
22 reliability or economically driven today are probably going
23 to -- a case can be made that they'll be more reliability at
24 some point in the future. So it seems like that should be
25 probably flexible enough to be able to recognize that

1 shifting paradigm over time.

2 MR. MOELLER: If you're available, we need more
3 participants on our task force.

4 (Laughter)

5 COMMISSIONER BROWNELL: He's not.

6 (Laughter.)

7 MR. BLAKE: And it's a long-term commitment.

8 MR. CANNON: One last question, if I might.

9 I take your point that we've got something of a
10 consensus here with at least some level of buy-in, and it's
11 a package, the Commission should just take it and run.
12 Where that doesn't happen and where people are at odds in
13 terms of what the right answer ought to be, what suggestions
14 do you have for our Commission in terms of how -- what
15 should we be looking for? How should we evaluate a request
16 that comes here where we don't have consensus? What's the
17 default?

18 MR. MOELLER: As we work for RECBI 2 that
19 default mechanism is what we're essentially trying to
20 define. The guiding principle that the OMS asked us to
21 endorse and try to achieve is that the cost goes with the
22 beneficiaries over time. In the short time horizon the
23 beneficiary might be the participant that wants a piece of
24 construction; but in the long time horizon those
25 beneficiaries change.

1 So a protocol across the 20 or 40 year life of a
2 transmission facility has the prospect of, at the beginning
3 of the project being able to defend that how you allocate
4 the cost is consistent with who we expect to benefit over
5 the life of the facility is the holy grail of transmission
6 tariffs, if you will. Without the tie between who benefits
7 and who pays, the ability to show need and achieve cost
8 recovery is difficult.

9 The cost recovery issues are legal issues that
10 courts have dealt with at various times. But I'd suggest
11 that penultimates to that argument be whether or not the
12 line was constructed.

13 If there is not relative consensus politically
14 over the need for a facility it's very difficult, in spite
15 of all the backdrops and court proceedings, to actually
16 achieve that construction.

17 A contentious high voltage long-term project
18 might take 15 years for an idea to come into fruition. Now
19 we're speculating about benefits that come in year 16. We
20 have to work towards consensus around those kinds of issues.

21 MR. BLAKE: One of the other issues that came up
22 when we were talking about this cost allocation for
23 reliability projects is once you make an allocation should
24 you change it. Things do change over time. But there was a
25 real concern that it's tough enough to get the dollars for

1 cost recovery the first time, going back to your state and
2 saying 'oh, by the way, they gave me another whack for this
3 project,' you know, doesn't go down real easy.

4 The consensus was not to revisit it. There's an
5 acknowledgement that things change over time, that cost
6 allocation and cost recovery, being what it is, there was a
7 tendency to just leave that one alone.

8 MR. BARDEE: If I could ask a question that is a
9 little bit of a variation on what Shelton just asked.

10 Let's assume for a moment that this case ends up
11 in court and the Commission has to say something in its
12 order, assuming it approves the 20 percent, about why that's
13 a reasonable amount. And compromise consensus helps a lot.
14 But ultimately the court is going to want something more
15 than that.

16 Do you think the kind of power flow and dispatch
17 analyses you've performed indicating a range of anywhere
18 from ten to 44 percent, is that something the Commission
19 should be saying that puts us in the ballpark and justifies
20 this 20 percent somehow?

21 MR. MOELLER: If I may, the reality of the
22 region we're in, that type of analysis yields consistent
23 repeatable results in all three regions that we assessed.
24 The thing that I would offer is the western region with the
25 overlapping service territories makes that test less

1 appropriate in terms of its applicability for the entire
2 footprint.

3 The notion that SPP brought to us was a creative
4 notion in terms of assessing the use on a normal dispatch of
5 the neighboring systems for any given characteristic. It's
6 a straightforward easily repeatable analysis. It is,
7 however, applicable to projects that are premised on
8 reliability criteria and capacity.

9 So it's important to understand both its
10 strengths and its limitations. To attempt to use that sort
11 of analysis to justify a project that was premised purely on
12 its economic attributes I believe would be inappropriate.

13 MR. BARDEE: Something else I wanted to ask you
14 about, Mr. Moeller.

15 You had mentioned earlier -- and I may misstate
16 this; please clarify me if I get it wrong -- that there was
17 sort of a three step framework for how you all reached this
18 decision, the second step of which I believe was an effect
19 on LMPs which, if I understood you right, you'd said had not
20 framed the question in terms of where the numbers should be.
21 It was just used to convince people that there should be
22 some sharing.

23 Could you explain that more, please?

24 MR. MOELLER: Sure.

25 The recognition that a reliability premised

1 project was also an economic project was part of the
2 thinking that went into that. We had talked through the
3 notion that said there are reliability benefits to a system
4 where none of the neighbors degrade, back to Commissioner
5 Kelly's comment.

6 We had a difficult time showing that in terms of
7 the quantification of the value. So what we did was we took
8 a series of projects in different regions that were at
9 higher voltage level. We constructed a model that inserted
10 the facility. Then we looked at the LMP impacts on the
11 entire MISO footprint. So we showed a project in Ohio that
12 had a positive benefit in Minnesota; a project in Minnesota
13 that had a positive benefit in Ohio.

14 We did that sort of a matrix approach just as an
15 indicative screening so that we could convince ourselves
16 that in spite of the fact that the further away you are
17 electrically from one of these investments, it didn't mean
18 there was no benefit. It mean the benefit might erode
19 across distance, but it didn't disappear. That was the
20 purpose for that screening assessment.

21 Finally, we looked at the allocation engine,
22 which is what we spent most of our time today talking about.

23 MR. BARDEE: In terms of the dispersion of
24 benefits when you looked at it on an LMP basis, how did that
25 compare if you all looked at it this way to the way the 80

1 percent is going to get allocated? Is that when you all got
2 to the point Mr. Blake was mentioning of this thing working
3 numerically?

4 MR. BLAKE: When we were looking at the LMP
5 benefits company by company some folks actually had a
6 negative impact. It wasn't all positive.

7 One of the discussions is, you know, should the
8 winners compensate the losers. Do you just ignore the
9 impact on the losers? We really got kind of chasing our
10 tail when we're doing it based on just LMP benefits, trying
11 to do that for reliability projects. And like I said, what
12 finally got us out of the weeds is to figure out one thing
13 that we can agree on is kind of the electrical impacts of
14 these projects if we allocate costs based on electrical
15 impacts rather than try to do it with this measure of
16 benefits.

17 That's kind of a back door measure because it
18 positively impacts me electrically. We're saying that you
19 benefited. That gets me out of the problem of having to
20 monetize that. That's kind of what got us out of the weeds
21 is to not pursue that.

22 And I think what Clair points out is it was a
23 good exercise to demonstrate that there is some. But as far
24 as what that was, we kind of arrived at it by a compromise.

25 MR. MOELLER: To amplify the LMP analysis and

1 some of its shortcomings, an LMP that takes a turn in a
2 wrong direction is generally, there is also a generator in
3 the same physical location that enjoys more sales. Then you
4 waffle into what's the rate regime. Do those more sales
5 inure to the benefit of retail customers. It is a fixed
6 rate. You end up in conversations that can't end.

7 So it was an indicative screen that said yes, we
8 can agree that these kinds of projects do in fact benefit
9 everyone, even though they are hard to quantify. Then it
10 got down to let's go back to the 20 percent as the common
11 denominator between the three regions. The folks in the
12 western part of the region with their 63 percent, that's an
13 artifact of the overlapping control areas and the historic
14 sharing of investment.

15 Most of the utilities in that region have
16 historically looked at large projects and literally shared
17 the investment in those projects because of the overlapping
18 service territories. That's why that 63 percent is so much
19 bigger than the more homogeneous balancing authorities that
20 we find in the eastern part of our footprint.

21 MR. MC LAUGHLIN: I just wanted to ask a
22 question on the RECB task force. It sounds like that's
23 where most of the fun is occurring or has occurred, and is
24 continuing to occur in RECB 2.

25 Could you give me some idea of the diversity of

1 stakeholders that are participating in that? Is that a
2 closed set? It appears people can come and go because of
3 the different vote tally.

4 MR. MOELLER: Everybody shows up on voting day.
5 Go ahead.

6 MR. BLAKE: If we're talking both in person and
7 on the phone, depending on whether it's voting day, as Clair
8 mentioned, it's probably somewhere between 40 and 100,
9 depending on what topics are being addressed and whether
10 you're voting or not. It was pretty wide participation and
11 anyone could participate in these.

12 I believe there were updates given to the
13 advisory committee as we went through this, and the
14 stakeholder community was pretty widely aware this was going
15 on. This wasn't any secret. You had to have a high
16 tolerance for pain to get involved, you know. As far as it
17 being a secret that it was going on, it wasn't.

18 MR. MOELLER: To talk about the voting a little
19 bit on the RECB task force, because of the high numbers you
20 end up voting because it's hard to get a clear understanding
21 of what people's opinions are. It's generally one
22 organization, one vote. But it could be there are 26
23 transmission owners and 50 independent power producers.
24 Then the vote might be 50 to 26 on some individual element.

25 It's not the stakeholder representative kind of

1 structure that we have in the advisory committee meeting.
2 It's as interest may appear kind of relationship.

3 Among the things we're trying to move towards in
4 RECB 2 is to try to get less voting and a richer explanation
5 of opinions. So for example we've currently got six
6 different alternatives that are out for review and we're
7 asking the stakeholder community to evaluate it by giving it
8 a one through five rating for each of the six alternatives
9 so that we don't have -- otherwise we can't construct a
10 compromise.

11 Navigating this tension between all the
12 stakeholders has truly been one of the educations of my
13 professional career.

14 (Laughter.)

15 MR. MC LAUGHLIN: In the stakeholder process or
16 in the task force do you see the approximate same
17 participants in RECB 2 as you had in RECB 1 or has that
18 changed because of people now realizing that RECB 1 -- what
19 it did and how it worked out, there's more of an interest in
20 RECB 2?

21 MR. BLAKE: I think it's pretty much the same
22 folks, Mike. The folks that show up in the room I recognize
23 are pretty much the same folks. The state commissions have
24 been pretty actively involved across the board on this. The
25 transmission owners have been very involved in this. A lot

1 of the marketers have been very involved in this and they've
2 got their opinions.

3 When you're talking about the economic projects,
4 this is much more lively because this gets into a whole new
5 area. It gets us back into the problem that we escaped with
6 this cost allocation methodology of having to quantify
7 benefits, you know, like in dollar terms so that we have a
8 basis for allocating costs.

9 One of the things that really helped break the
10 log jam was this electrical approach to viewing that as a
11 backdoor measure of benefits.

12 MR. MOELLER: A parallel effort, if I might
13 elaborate, that we're going through in the stakeholder
14 process is there is part of the transmission owners'
15 agreement that calls for a planning advisory committee that
16 had lain dormant for several years. We've reinvigorated
17 that planning advisory committee. That is a strict
18 stakeholder representation by sector.

19 We are also carrying the RECB questions, the
20 planning horizon questions, the how do we extend the horizon
21 and bring energy back into the calculus on value drivers.
22 And we're having those discussions on a representative basis
23 at the planning advisory committee, with the ultimate goal
24 of providing that input to our advisory committee as a whole
25 and once again taking a third cut at the debate around which

1 interests and where the interest balance might be. Then, of
2 course, ultimately we have to choose what to file. And you
3 all get to adjudicate the circus.

4 MR. BROWNELL: Before we close, I just wanted to
5 say thank you to Steve Gaw. I think serving on two RSCs --

6 (Laughter.)

7 M. BROWNELL: -- is service way above the call
8 of duty.

9 I also want to thank Randy not only for his work
10 on this, but Randy is doing the very heavy lifting on the
11 economic dispatch study for our part of the world. So we're
12 not going to keep him long because he's got to get back.

13 Thank you.

14 And Steve hosted a meeting for MISO and FERC and
15 the Missouri Commission and Ameren last week, which was
16 very, very productive. It's amazing what happens when
17 people talk to each other.

18 MR. GAW: I agree with you, Commissioner. Thank
19 you for bringing that up. I do believe it was very helpful
20 for all parties. And thank you for your leadership.

21 COMMISSIONER KELLIHER: Any other questions?

22 Melissa?

23 MS. LORD: I'm sorry. I have one quick
24 question.

25 If the Commission were to look at the 20 percent

1 postage stamp as an interim step subject to re-evaluation in
2 the future, given that these are projects that take a long
3 amount of time to come to fruition, what amount of time
4 would be necessary or practical to have that re-evaluation
5 occur?

6 MR. BLAKE: I believe most folks would look at
7 it in the time frame of when do I retire.

8 (Laughter.)

9 MR. BLAKE: It would be the year right after
10 that.

11 This wasn't a fun discussion. This took 19
12 months of heavy sledding. And there's nobody that I'm aware
13 of that's just itching to get back and talk about these
14 issues again. This was a tough one.

15 I don't think I'm kidding too much about one
16 year after most people retire.

17 MR. GAW: I might just add to that, Melissa,
18 others know much more about this, but I think all this has
19 to be revisited in '07. This is a window, regardless.

20 Clair, you might want to have some details.

21 MR. MOELLER: I think we wound up visiting it
22 twice. In June we're going to be filing the second half of
23 RECB. That's going to inform our conversation around the
24 postage stamp component. And then subsequently the
25 transmission owners of the Midwest ISO are obligated to

1 revisit the question and either defend status quo or come up
2 with another idea in 2007.

3 So, Marty, I guess you've got to retire.

4 (Laughter.)

5 MR. RISMILLER: There's also the impact of the
6 exclude list. Given that there is an exclude list in this
7 case the practical reality is that perhaps this method may
8 not actually be used for a while on a real project in the
9 ground.

10 COMMISSIONER KELLIHER: No further questions.
11 Why don't we take -- I want to thank the panelists for
12 helping us Friday afternoon.

13 Why don't we excuse this panel and have a 15
14 minute break. So we can come back at five minutes to three.

15 (Recess.)

16 CHAIRMAN KELLIHER: Okay. We're going to
17 resume. I still don't have a gavel, so I'm going to have to
18 ask people to stop talking.

19 If the second panel can come up. Let's start
20 with Kim Wissman.

21 MS. WISSMAN: Thank you. Thank you for the
22 opportunity to be here today. I am Kim Wissman,
23 representing the Ohio Public Utilities Commission today.

24 The PUCO is opposed to the postage stamp method
25 of recovery without some kind of benefits test. We will

1 continue to oppose such a philosophy as long as there is no
2 test.

3 We support a position that reflects that costs
4 should be shared by those who benefit. There are pieces of
5 this package that we do in fact support and believe that
6 those pieces actually should send a message that the postage
7 stamp component is in fact inappropriate.

8 We do support regional rates if there can be a
9 demonstration that customers benefit with an expanded bulk
10 power system they should in fact pay for it. If Ohio can be
11 shown to benefit from some of these expansions we would not
12 be opposed to recovering some of those costs.

13 We would support a regional rate across the
14 entire MISO footprint if it could be demonstrated, for
15 example, that customers in Ohio would benefit from
16 transmission built in North Dakota. However that is highly
17 unlikely and perhaps irrational, if not unimaginable how a
18 methodology that would allocate costs for a North Dakota
19 project could be acceptable. This footprint of MISO's is
20 way too expansive to adopt this methodology.

21 Ohio is in a unique situation. We heard earlier
22 this afternoon about significant loads while the rate
23 impacts are less. The fact is that the significant loads
24 such as Ohio do a pay a lot. Ohio is about 15 percent of
25 the MISO load, so we would be picking up about 15 percent of

1 the postage stamp portion of the costs, including those
2 costs that are being imposed on North Dakota investments.
3 This is not acceptable to Ohio. You might as well send the
4 bill to customers in London -- and that's not London, Ohio,
5 but London, England.

6 The PUCO believes that the bulk transmission
7 projects can provide benefit to just more than local owners
8 who construct the facility. But we believe that the only
9 concept that would pass a reasonable test, a just and
10 reasonable standard set out in Section 205(a) of the Federal
11 Power Act is a beneficiary pays test.

12 At our last calculation the consumers in Ohio
13 were about 15 percent of the load. I have not done a new
14 calculation since we've had some of the MISO members pull
15 out. I suspect that our load ratio share has grown since
16 then.

17 There were some discussions this morning, Clair
18 put some numbers on the table about the investment. A quick
19 calculation of the MISO transmission expansion plan is about
20 \$4 billion. Eleven of those projects are Ohio projects.
21 Those projects amount to about \$32 million. None of those
22 are eligible for postage stamp allocation. Ohio's portion
23 of the MTEP postage stamp is \$78 million.

24 A concern we have with going forward with
25 accepting this type of methodology is the future

1 implications of adopting such socialization policies in
2 transmission pricing in general. If this is adopted here
3 can we expect the same in other RTO applications and orders.
4 This Commission is faced with a huge number of transmission
5 pricing issues right now. And we are concerned that this
6 would be accepted. You've got the regional rate design
7 issue, you've got PJM.

8 And again Ohio is in a unique position because
9 we're in PJM as well and we have a significant load in PJM.
10 We have about ten percent of the load there. If this is
11 imposed on PJM pricing we could have a disproportionate
12 share of costs imposed on our customers with those projects
13 as well.

14 The PJM expansion plan has -- it's a five-year
15 plan and they've got almost two billion dollars of
16 transmission expansion projects identified. If you apply
17 this postage stamp application to Ohio and its ten percent
18 load, that could reach about \$36 million that Ohio
19 ratepayers are asked to pick up.

20 Another example -- perhaps an even better
21 example -- is the American Electric Power Interstate project
22 which we are all aware of that they have filed at DOE for a
23 national corridor status. If that is in fact placed in the
24 PJM RTEP process and a postage stamp methodology was
25 adopted, Ohio would be responsible for a significant amount

1 of the costs for that line. The Ohio customers derive no
2 apparent benefit from that proposal. Our responsibility for
3 that three billion dollar project would be about \$60
4 million.

5 In effect, it appears to Ohio that we are being
6 penalized for, number one, having a significant customer
7 base to start. We are concerned about the risks associated
8 with this kind of application because it won't work in this
9 case.

10 And finally, we feel like we're being penalized
11 for having previously invested in a robust transmission
12 system.

13 There has been quite a bit of talk about the
14 need for investment for reliability purposes and in fact I
15 think the excluded project list is a prime example of why
16 the stakeholders in this process didn't find the 20 percent
17 postage stamp reasonable to start with, because they
18 excluded these projects. They excluded them to put the
19 companies, the states, and stakeholders all on a level
20 playing field.

21 There has been no difficulty in building
22 transmission in Ohio, which is why we have very little need
23 for investment in the near future in Ohio. That has not
24 been the case in other states.

25 Our companies have complied with NERC standards

1 and wd don't believe that we should have to pay for states
2 that have not allowed for transmission investment to be paid
3 for by Ohio ratepayers. I just think that again the extant
4 project list is an example that shows that there are
5 inherent inequities in this proposal.

6 There was discussion earlier today -- and I
7 certainly won't bore you with the details or the numbers --
8 but there was discussion about the methodologies that MISO
9 used to demonstrate that there were in fact benefits. But
10 if you take a close look at the numbers there is a lot of
11 disparity in those numbers. I would surmise that if you
12 look at the resulting numbers and the differences among the
13 regions, that that is in fact a reason not to adopt this
14 proposal than to accept it as a political and much debated
15 compromise.

16 I do admit that it was a very arduous, as you
17 used, Mr. Chairman, endeavor. It was not fun for any of us.
18 It appears to us that there has been -- and I think it was
19 inherent in the discussions and how they evolved -- but
20 there is a desire for these formula-type methodologies to
21 promote quick expansion of the transmission system in order
22 to avoid the controversy of who is going to pay for it.

23 We support expansion of the system where it's
24 needed. But we just can't create a method to allow certain
25 regions that have adequate systems in place to subsidize

1 those that have fallen behind and will be rescued through an
2 application of the postage stamp rates. At most, for a
3 region that is extremely large such as MISO, subregional
4 allocation methodologies could be considered.

5 But a methodology that allocates the project
6 costs to that entire region regardless of the location of
7 the project and regardless of who is benefiting is not
8 acceptable and should not be accepted by FERC.

9 Marty had talked about the difficulty in the
10 process and the need to build transmission, and that folks
11 just reached the point of 'let's just suck it up.' Well,
12 Ohio is out of straws. FERC cannot let its desire for
13 transmission system expansion to trump the underlying
14 principles of ratemaking.

15 Ohio is in a unique position. We have several
16 RTOs. We have varied companies and stakeholders in the
17 state. Because of that we have landed on a position that
18 there is no particular rate proposal or formula, if you
19 will, that will have a consistent economic impact on Ohio's
20 companies and customers.

21 So we believe that the rate design principles
22 that we all have known and used for so many years is what
23 this Commission needs to do. You can't look at economic
24 outcomes; an individual state can't look at economic
25 outcomes. You need to rely on the basic inherent rate

1 principles that we regulators have used for many, many
2 years.

3 This Commission even in its going-forward
4 principles in Docket EL02-111 stated an important factor in
5 determining whether these standards have been met in any
6 long-term transmission pricing structure is the degree to
7 which cost responsibility for facilities is assigned to
8 those who use or benefit from such facilities regardless of
9 whether such users or beneficiaries are located inside or
10 outside the transmission owner's footprint.

11 That policy went on to say that the Commission
12 recognizes the importance of ensuring that our transmission
13 pricing policies promote economic efficiency, fairly
14 compensate utilities for providing transmission services,
15 reflect a reasonable allocation of costs among users, and
16 maintain reliability of the transmission grid.

17 In that same policy statement you recognized
18 that in response to changes in institutions, competitive
19 pressure and technological innovations, you pointed out that
20 flow-based pricing structures should be encouraged.

21 Ohio would strongly urge this Commission to not
22 adopt the formula approach and really look at encouraging
23 flow-based modeling and pricing structures to provide for
24 effective and efficient pricing and expansion investment.

25 Thank you.

1 CHAIRMAN KELLIHER: Thank you.

2 Mr. Skarbakka.

3 MR. SKARBAKKA: Good afternoon. My name is Glen
4 Skarbakka. I'm here today to represent the North Dakota
5 Industrial Commission, the NDIC.

6 The North Dakota Industrial Commission's
7 interest is in a cost-allocation policy that does two
8 things. First of all, that it would encourage rather than
9 inhibit the addition of transmission. The State of North
10 Dakota is home to resources that can really only be summed
11 up in superlatives: Hundreds of years of lignite coal
12 supply; tens of thousands of megawatts of wind capacity;
13 resources that if brought to the market could bring price
14 stability and low-priced energy to the region and reduce our
15 reliance on volatile prices and foreign resources.

16 I'd like to see transmission policies that
17 encourage transmission that will model those resources.

18 Second, we have interest in a fair allocation of
19 costs among beneficiaries. And that's what this is all
20 about. But we think that the perspective that needs to be
21 taken in designing a cost allocation policy really needs to
22 look at the long-term. To merely look at a snapshot, to
23 look at today's market conditions, to look at today's
24 network topology really understates the impact of
25 transmission that's going to be part of the system for 40

1 years or more, particularly the extremely high voltage type
2 facilities that are the subject of consideration today.

3 The NDIC in their comments reluctantly supported
4 the 20 percent postage stamp component. We saw it, as was
5 characterized earlier, as a tip of the hat towards a postage
6 stamp. We're convinced that a larger component than 20
7 percent would be just and reasonable. Again as a part of a
8 compromise only we again reluctantly went along with a
9 smaller percentage.

10 What are the reasons why we think a postage
11 stamp is appropriate? First of all, we do think that the
12 benefits of additions to the transmission system are
13 widespread, both today and they'll become wider-spread in
14 the future as the network is built out, and as you see
15 increased connectivity across the network. These impacts
16 from any particular addition are going to grow in geographic
17 scope rather than decrease over time for any particular
18 addition. That applies both to reliability and also applies
19 to the markets.

20 We're now in a market regime in the MISO region
21 where all of the generation is put into the market. All of
22 the load is served out of the same market. We're not
23 talking any more about a regime where generation in one
24 particular zone serves the load of that zone; it's much
25 broader than that today. And having a strong transmission

1 grid to support that is essential.

2 It also contributes the benefits. It also
3 really makes a market like that possible.

4 The beneficiaries of any particular transmission
5 addition do change with time. That was acknowledged earlier
6 today. Our transmission grid was built through accretion.
7 By that I mean that a project that was added for any
8 particular purpose at any particular point in time becomes
9 part of the foundation for other uses of the system in the
10 future and for other transmission projects that will be
11 built on top of it.

12 Again you can see that today with the
13 transmission grid that we have. It was built for load-
14 serving in some areas, to serve generating projects in other
15 areas. But now it's being used to support this regional day
16 to market something that was never envisioned when the
17 transmission additions were first put in. And certainly it
18 wasn't part of their calculus in terms of just defining the
19 project initially.

20 Again we think a long-term perspective in terms
21 of evaluating what transmission projects do for the region
22 is appropriate here.

23 Another reason for considering that is what was
24 mentioned earlier today. It is difficult to go back and
25 revisit allocations in the future, having made them once.

1 So I think it's important that when that initial allocation
2 gets made that the allocation be done in a manner that takes
3 into consideration the entire life and future uses of the
4 transmission addition.

5 Lastly, there's been a lot of argument about
6 postage stamp. But at some point it boils down to
7 simplicity and fairness. It is something that's simple to
8 calculate; it's simple to administer. And at some level it
9 is fair because it does impact all loads to an equal extent.
10 A state with a lot of load is certainly going to see a lot
11 more dollars allocated to them. On the other hand, they
12 have a lot more load. If there is any rationality to the
13 argument that there are benefits from the transmission,
14 they're going to see proportionally more benefits per unit
15 of energy used.

16 I think with that I'll stop and leave more time
17 for questions.

18 CHAIRMAN KELLIHER: Thank you.

19 Mr. Bruneel.

20 MR. BRUNEEL: Chairman Kelliher, I'm Larry
21 Bruneel, Vice President of Federal Affairs for ITC
22 Transmission. Today I am representing ITC and Michigan
23 Electric Transmission Company, METC, the other company that
24 represents all the transmission -- between the two of us we
25 represent all the transmission in the Lower Peninsula.

1 Not an editorial comment, but about 13 years ago
2 next month Mike and I and others that were at the Commission
3 at the time were working on transmission pricing policy
4 statements. I just point that out.

5 MR. BROWNELL: Where is it, Mikey?

6 (Laughter.)

7 MR. BARDEE: We nailed it that time, didn't we.

8 (Laughter.)

9 MR. BRUNEEL: Let me start out by trying to put
10 this in perspective.

11 When we talk about a postage stamp rate, I'm a
12 customer of PEPCO but it worked pretty well within the MISO
13 context. We took that bill because PEPCO identifies the
14 transmission component separately, so it was pretty easy to
15 do a calculation. Of my bill, which is around \$40, \$1.70
16 was transmission service. That's about four percent of the
17 total bill.

18 The 2005 Midwest Transmission Expansion Plan, or
19 MTEP-5, identified about \$2.9 billion of transmission
20 investment. 1.3 billion of that was to satisfy the hurdle
21 of the capital costs, more than five million that we've set
22 out here, in order to be eligible for regional cost sharing.
23 If that entire 1.3 billion were regionally allocated I would
24 expect my bill -- I've got a townhouse up in Rockville, it's
25 pretty typical -- I would expect my monthly bill to change

1 about 37 cents.

2 Using the postage stamp rate actually increases
3 the cost less than a real postage stamp, which is 39 cents
4 per month. That's the context for the cost impacts on
5 customers that we think we're talking about here. I'm not
6 separating out just the items above 345. We looked at all
7 of it. So it might be less when you just look at the 345.

8 I think this is compelling. 37 cents a month is
9 a small price to pay for increased reliability, not to
10 mention the fact that it could be more than offset by the
11 savings on the generation component of my bill. Remember,
12 my bill is pre-price cap getting lifted.

13 We're arguing over pennies a month. If we don't
14 adopt a simple cost allocation method reflective of the
15 regional benefits that these investments provide we risk
16 entering long, protracted cost allocation debates that may
17 impede the needed construction of transmission that Congress
18 recognized as necessary and that this Commission I believe
19 intends to promote.

20 Let me switch over and talk about some of the
21 benefits that we receive from increased investment in
22 transmission. It's the view of ITC Transmission and METC
23 that the 20 percent of revenue requirement advocated system-
24 wide by the use of the postage stamp rate does not
25 adequately represent the diffuse nature of the benefits that

1 arise from high voltage transmission investments. Instead
2 we believe that costs of high voltage transmission lines
3 should be allocated through the use of up to 100 percent
4 postage stamp rates. In fact, stakeholder discussions that
5 preceded the file proposal, in those discussions the Midwest
6 ISO itself provided analysis that supported a 30 percent
7 region-wide pricing component. We view that as a floor;
8 that should be the minimum, 30 percent.

9 The fundamental premise that's motivating our
10 belief is that higher voltage transmission within this
11 energy market construct that we now have in MISO delivers
12 benefits to the market in general that cannot be reasonably
13 allocated to one zone more or less than another. In an LMP-
14 driven market the removal of congestion allows greater
15 access to markets and more efficient generation to set
16 prices, thereby providing benefits to seemingly distant
17 market participants.

18 While the proposal at issue in this case deals
19 with -- quote -- reliability projects, there's no question
20 that the types of transmission projects we're discussing
21 provide both economic and reliability benefits. And I think
22 there was a pretty good discussion on that in the earlier
23 panel. The characteristics of large AC power systems
24 dictate that high voltage infrastructure upgrades strengthen
25 the entire Midwest ISO grid and have far reaching economic

1 and reliability impacts. We learned that the hard way in
2 the August 2003 blackout when what appeared to be something
3 that was just a small regional occurrence had a pretty wide
4 regional impact.

5 Even for customers that rely primarily on local
6 resources high voltage lines allow for opportunities for
7 market participation. There are many examples from other
8 public and private enterprise that reinforce the pricing
9 rational for goods with widespread benefits. Take the U.S.
10 interstate highway system. It's hard to measure how much
11 marginal benefit a single user derives from the presence of
12 freeways. But it's very clear that on a macro-level the
13 system benefits the economy of the U.S. greatly. These
14 benefits are present even for individuals who don't drive
15 automobiles.

16 High voltage transmission shares many of the
17 same characteristics. The reliability benefits are, as
18 we've seen, regional. And the competitive benefits of the
19 marketplace are only obtained as barriers to entry are
20 reduced and price competition ensues. While all parties may
21 not benefit from the most recent transmission project, in
22 time with the right expansions in place the goal of
23 competitive markets can benefit all consumers.

24 Furthermore these benefits to consumers not only
25 result from lower energy costs but also from economic

1 development at lower costs of produced goods that are
2 dependent upon energy costs.

3 A common criticism of postage stamp pricing is
4 that costs are allocated to parties that are not
5 beneficiaries of the system expansion in question. It's
6 true that for any particular system expansion some parties
7 are more likely to see benefits, at least initially, than
8 others. But let's imagine that we were able to, with no
9 distortions of any kind, conduct simulations that revealed
10 who truly benefits from a given system expansion. It would
11 be a natural step to allocate the costs of the system
12 expansion to the pricing zones in proportion to the benefits
13 derived.

14 Here's the challenge: Accurately predicting the
15 set of beneficiaries over the cost recovery horizon of a
16 long-life transmission project. This is simply a reality of
17 system topology of economic growth. In this sense what has
18 been a criticism of postage stamp pricing is really one of
19 its most redeeming qualities. The postage stamp rate does
20 not presume to answer the question of who benefits at a
21 granular level over time, but implicitly recognizes that
22 there are widely dispersed benefits of an interim temporal
23 nature that accrue from large-scale upgrades.

24 There are also other inherent advantages of this
25 rate design such as simplicity, price transparency for

1 customers and formulate rate compatibility. Inevitably a
2 cost allocation process that purports to show how much each
3 entity benefits or loses as a result of economic expansion
4 will only lead to arguments that will prevent needed
5 expansions from being built. Again, what we're in danger of
6 here is setting up a system that will inhibit rather than
7 promote system expansion.

8 The Midwest ISO and its stakeholders are
9 currently examining how to price transmission constructed
10 for economic purposes. Let's look at this in the same
11 context as the freeways I talked about earlier.

12 What's the purpose of I-95, which we all know
13 and love and sometimes curse. But is it to allow military
14 transport up and down the East Coast? Is it to allow
15 entities in South Carolina that are industrial producers to
16 efficiently coordinate their supply chains; to enable
17 vacationers to visit Florida? Yes, yes, and yes to all of
18 those questions.

19 In terms of transmission it's difficult to see
20 how one could equitably allocate costs to today's perceived
21 beneficiaries when the project in question is going to
22 provide economic and reliability benefits over many, many
23 years to potentially many different market participants.

24 The transmission grid has evolved a great deal.
25 Its role was originally to allow for some distance between

1 generation and load. But in today's energy markets
2 transmission is an enabler of commerce. The reliability
3 benefits from interconnected systems are central to economic
4 growth, national security, and the high standard of living
5 we have in the United States.

6 For these reasons we see the transmission
7 infrastructure as, roughly speaking, public good to energy
8 markets and feel that up to 100 percent, with no less than a
9 30 percent floor, allocation is appropriate for high-voltage
10 transmission facilities.

11 Thank you.

12 CHAIRMAN KELLIHER: Thank you.

13 Mr. Mathis.

14 MR. MATHIS: Good afternoon. I'm Gary Mathis of
15 Madison Gas & Electric Company speaking on behalf of the
16 Midwest TDUs today. I thank you for allowing us to appear.

17 The Midwest TDUs are an information association
18 of transmission-dependent utilities that are advocates for
19 competitive markets, open access and effective cost
20 allocation methodologies. The members are listed in my
21 handout.

22 The Midwest TDUs support a broader regional
23 sharing of new 345 and higher facilities because it's
24 consistent with the regional benefits they provide and it's
25 consistent with this Commission's determination that MISO is

1 a single market that benefits all load and generation in the
2 region.

3 It's important to emphasize that we're talking
4 about the cost allocation of only a subset of all the
5 transmission, just the 345 projects that are new.
6 Transmission providers have historically and to date
7 allocated 100 percent of their entire transmission system on
8 a postage stamp basis to all their customers. Cost of
9 service studies are performed, and these transmission costs
10 are allocated on a demand basis, no locational component,
11 but an equal demand basis over the transmission provider's
12 footprint.

13 Transmission providers with a huge geographic
14 area that covers multiple states perform jurisdictional cost
15 studies and allocate the costs of the integrated system to
16 the jurisdictions on a demand basis, again 100 percent
17 postage stamp. The reason this is done is that their
18 systems are planned on a single basis for the overall
19 benefit of all customers. This is where MISO is at now.

20 MISO is planning the optimization of its entire
21 footprint in its expansion planning process. So the
22 starting point for determining the cost allocation for this
23 subset, the new 345 and above facilities should start at 100
24 percent postage stamp. MISO's proposal to use a regional
25 rate for only 20 percent of the new 345s and above doesn't

1 capture the regional benefits that these facilities provide.
2 These major additions strengthen the entire grid and also
3 provide trading opportunities. They are crucial for
4 stitching together a patchwork system that has just recently
5 begun operating and being planned as a single system.

6 Now the Commission has already recognized that
7 all of MISO loads and generators have access to and benefit
8 from the MISO-wide market. The Commission has ruled that
9 the relevant market for assessing market-based rate
10 authority is the full footprint of the RTO. So it would
11 seem now inconsistent to assign most of the costs of these
12 high voltage facilities to only a subregion when these
13 facilities are what make the single regional market
14 possible.

15 The Commission has already recognized the
16 appropriateness of regionally allocating 100 percent of
17 highway facilities on a postage stamp basis. This was the
18 Commission's conclusion in approving the TRANSLINK rate
19 design. The TRANSLINK rate designs advocate 100 percent of
20 highway facilities across the entire TRANSLINK footprint for
21 facilities above 200 kV. The Commission's order
22 acknowledged that this wide cost-sharing would mitigate
23 disincentives to construction that occurred when all the
24 costs are absorbed by only a small area while the wider
25 region benefits.

1 Technical conference after technical conference
2 has presented speakers representing a broad spectrum of
3 interests who have advised that the best way to promote
4 transmission expansion is to move toward regional rates like
5 the TRANSLINK rate. That's the opportunity that we now
6 have.

7 In Wisconsin we have experienced the change to a
8 broader sharing of costs. Prior to 2000 each vertically
9 integrated Wisconsin utility planned its system and
10 allocated the costs of its systems to its customers. In the
11 year 2000 several Wisconsin utilities divested their
12 transmission to the American Transmission Company. Since
13 that time the American Transmission Company has performed
14 planning for its entire footprint and has allocated the cost
15 of the combined system on a 100 percent demand basis through
16 the entire footprint. There is no locational component. It
17 can be done. And the result in Wisconsin has been major
18 infrastructure improvements that we share on a postage stamp
19 basis.

20 The Midwest TDUs believe that ultimately 100
21 percent of the baseline facilities, 345 kV or higher, should
22 be recovered through the regional rate, at least the new
23 ones. But this is the first step for MISO. So it is
24 appropriate to begin at a lower level and ramp up. Given
25 that only new high voltage facilities would be covered by

1 MISO's policy a postage stamp element of 50 percent or more
2 would be justified. As a minimum starting point the
3 regional component should be raised to 33 percent, the share
4 that SPP applies not only to these high voltage highway
5 facilities but all base plant facilities of 60 kV or higher.

6 To conclude, the Midwest TDUs urge the Committee
7 to reject MISO's proposal and to conclude that regional
8 sharing of a significant portion of the cost of the new 345
9 and above facilities is appropriate.

10 Thank you.

11 CHAIRMAN KELLIHER: Thank you.

12 Mr. Klempel.

13 MR. KLEMPPEL: I thank the Commission for this
14 opportunity. My name is Dan Klempel, manager of
15 Transmission Compliance for Basin Electric Power
16 Cooperative.

17 Basin Electric is a member-owned electric
18 cooperative headquartered in Bismarck, North Dakota. We
19 supply wholesale power to G&T and distribution cooperatives
20 in nine states, ranging from the Canadian border on the
21 north to Mexico, and straddling both sides of the east-west
22 interconnection split. Our transmission facilities and the
23 eastern interconnection are part of a multi-party tariff
24 called the Integrated System, or IS.

25 The IS tariff is administered by the Western

1 Area Power Administration Upper Great Plains Region, and
2 they provide all of our control area services.

3 We are market participant members of the Midwest
4 ISO but not transmission owner members. Approximately one-
5 third of the load served by generation on the IS resides in
6 some other control area. This means that a transmission
7 pricing scheme such as the MISO license plate method, which
8 eliminates a customer's cost share of the transmission
9 infrastructure that enables them to receive economical
10 generation from another zone, would shift the total cost of
11 the IS to the remaining two-thirds of the customers. The
12 Commission should not encourage such a pricing scheme.

13 Transmission infrastructure is the common
14 denominator that ensures interconnection-wide reliability,
15 provides transportation of economical electric energy
16 supply, and in the context today, enables the Midwest ISO's
17 market operation. The Midwest ISO has provided no
18 justification for excluding nearly all of the costs of
19 network upgrades from allocation on a postage stamp basis.

20 In fact, the Midwest ISO's studies have
21 confirmed what is intuitively obvious. Since generating
22 resources throughout the Midwest ISO are now supplying loads
23 throughout the Midwest ISO on a security-constrained
24 economic dispatch basis, all portions of the transmission
25 grid are being used to serve all loads. In fact, even

1 before the advent of market operation MISO's studies show
2 that when a utilities in the MAPP region serves load from
3 within their own zone using generation within their own
4 zone, they rely on an average of 40 percent external
5 transmission.

6 With respect to Basin Electric's immediate
7 neighbors, the study showed numbers as high as 71 percent
8 and 89 percent. Clair talked about this earlier, the
9 overlay that has occurred in the MAPP region. Having
10 demonstrated that within zone dispatch uses much greater
11 than 20 percent of existing transmission facilities, the
12 Midwest ISO is now asking this Commission to find that with
13 centralized system-wide economic dispatch only a small
14 subset of new network facilities will benefit all network
15 customers, and that benefit arbitrarily should not be for
16 any more than 20 percent of the cost of that subset.

17 The proposal to allow a small portion of the
18 costs of only some network upgrades to be rolled into the
19 network revenue requirements of the Midwest ISO transmission
20 owners and the bulk of the cost of system-wide beneficial
21 upgrades to be borne within each individual TOs rate design
22 is antithetical to every aspect of the Midwest ISO's
23 planning, operation, function, and purpose.

24 In short, since all loads on the Midwest ISO
25 transmission system utilize all portions of the system, and

1 since all loads therefore benefit from all network upgrades,
2 it follows that it is just and reasonable to allocate the
3 costs of all network upgrades proportionately to all loads.

4 Consequently Basin Electric urges the Commission
5 to find that users of the entire Midwest ISO network benefit
6 from network upgrades, and that it is just and reasonable
7 for all network costs to be shared equally on a system-wide
8 postage stamp basis by the people who benefit from a
9 reliable electric energy transportation system. If the
10 costs of network upgrades are allocated on a postage stamp
11 MISO-wide basis the zone or zones in which the facilities
12 are located will bear a proportionate share of the costs.
13 This is consistent with MISO's studies demonstrating that
14 all loads benefit from network upgrades. It's consistent
15 with the obvious dispatch of MISO resources, and it will
16 produce just and reasonable rates.

17 We've previously filed comments in greater
18 detail. And we refer you to those.

19 Thank you.

20 COMMISSIONER BROWNELL: Kim, you talked about the
21 robust system in Ohio. Tell me how much transmission you
22 all built in the last, let's just say five years, maybe,
23 approximately, just give or take.

24 MS. WISSMAN: I have not brought those numbers
25 with me. But I do know that we have -- and these obviously

1 come before the Siting Board, which I am also engaged with -
2 - we have had numerous projects. I want to say that we've
3 probably invested something in the magnitude of about 400
4 million in the last five or six years.

5 COMMISSIONER BROWNELL: Okay.

6 You said that you preferred a flow analysis.
7 Have you done studies that you could share with us -- or
8 maybe you've already filed them because you obviously don't
9 agree -- or Ohio doesn't agree with the studies that have
10 been done to support the 20/80.

11 MS. WISSMAN: First of all, we don't have our
12 own studies because we are just a sole state. It's very
13 difficult to get the entire regional information to do our
14 own load flow analysis. We do have modeling capability, but
15 we have been unable to do that on our own because it's
16 difficult to get the region-wide information.

17 It's not that Ohio has contested or disagrees
18 with MISO's studies that they have done. Ohio is ready to
19 admit that where you demonstrate that there will be benefits
20 to the State we're happy to pay for them. But I believe
21 that the study results, some of the numbers in the study
22 results, they're so divergent among the regions. And I
23 believe that the ECAR region for the power flow method was
24 at a 25 percent, and the overall average was 44 percent,
25 which means that the ECAR region benefits less. And the

1 dispatch methods show ECAR as ten percent whereas the
2 average was twice that, at 20 percent.

3 I don't think that we disagree with the studies
4 that were done. I don't believe that we would contest for a
5 second that we shouldn't pay for any benefits that were
6 flowing. I just believe that to take a formula approach and
7 apply it across the board, when you look at the majority of
8 the investments being far-reaching from Ohio, are just
9 unfair.

10 There is nothing like being a minority of a
11 minority, by the way. But just remember, as George Bernard
12 Shaw just said --

13 COMMISSIONER BROWNELL: Welcome to my world,
14 Kim.

15 MS. WISSMAN: -- the majority is sometimes wrong
16 and the minority is sometimes right. So I would remember
17 Shaw's words.

18 COMMISSIONER BROWNELL: I don't think we want to
19 say that here.

20 CHAIRMAN KELLIHER: Only in dissent.

21 COMMISSIONER BROWNELL: Even then.

22 I'm struggling because we do have kind of a
23 divergence. We've got 50 percent, 100 percent, 33 percent,
24 change it over time, formulas don't work. But certainly
25 it's important because these are not insignificant dollars.

1 If you were sitting here how do you reconcile
2 what are very, very different proposals with the concept
3 that there is no perfect allocation method for a variety of
4 reasons, not the least of which these are long-lived assets
5 on a dynamic system. In my view there is no perfect system.
6 I don't know how Joe feels. What makes one more perfect
7 than the last?

8 MS. WISSMAN: I think -- and I hope I said this
9 -- I guess I haven't sat there, but I sit here. Okay? And
10 I've been doing this for a lot of years. There is no
11 accepted formula that is going to work in every case.

12 In Ohio's situation with the RTOs, the
13 transmission systems and all the stakeholders we have, we
14 have been in a very, very difficult position for the last
15 five or six years in participating in the FERC proceedings
16 and proceedings at home. That's why our recommendation is
17 to in fact do a reasonable rate test and use your
18 longstanding rate philosophies and rate principles to set
19 these rates. Again, I believe the only way that that can be
20 done and meet the test is through a beneficiaries test.

21 So I believe that in every instance you are
22 going to have to -- and I'm not saying that it's not going
23 to be an easy task, that's for sure -- but I believe that
24 you need to do a flow-based modeling and it needs to change
25 over time because the markets change, the flows change. I

1 think this is going to be an evolving process and it's not
2 going to be an easy one for any of us. But I believe that's
3 the only way to make the test of reason.

4 COMMISSIONER BROWNELL: Larry, I promise you,
5 I'm going to get to you.

6 (Laughter.)

7 COMMISSIONER BROWNELL: So the concept of
8 basically floating regions and dynamic system evaluations as
9 proposed here kind of today just don't get you there.

10 MS. WISSMAN: That's right.

11 CHAIRMAN KELLIHER: Larry.

12 COMMISSIONER BROWNELL: Larry.

13 MR. BRUNEEL: I'm convinced you could find a
14 wide variety of proposals to be just and reasonable as is
15 required under Section 205. We're talking about a large
16 region. We're talking about an energy market.

17 I think it might be useful to turn to another
18 part of the Federal Power Act that says that transmission is
19 affected with the public interest. That's not to take the
20 onus off of us. You're hearing from all of us. But it does
21 place the onus on you to decide what that public interest
22 is. You're in the best positions. That's why you're there
23 and we're here. And you take into account when you look at
24 what we're proposing I think you have to weigh that against
25 perhaps what Commissioner Kelly talked about earlier. What

1 are the policy goals here, what were the policy goals that
2 were being articulated by the various entities proposing
3 various ideas.

4 You set the policy. We don't. You can choose,
5 you know, if you like various policy proposals. But I think
6 that's really the test here. You have to decide what that
7 public interest is. Obviously, fairness, ease of use, and
8 all that comes into play.

9 I guess I would caution that just because
10 something is labeled as a compromise among certain entities
11 doesn't mean that it's good public policy and doesn't mean
12 that it's serving the public interest.

13 COMMISSIONER BROWNELL: I don't disagree with
14 anything that you said. And God knows we're prepared to
15 make a decision. We certainly do that every day.

16 And I actually agree with the issues that
17 Commissioner Kelly raised. It's something we're talking
18 about in the context of where is planning in this world.
19 But for the particular proposal before us it has -- albeit I
20 completely disagree with the distinctions between
21 reliability and economic upgrades; I've got to live with
22 them for now. In this case we're looking at a pretty narrow
23 policy goal which is how to meet the NERC reliability
24 criteria, which may well cause one to come to very different
25 conclusions than if one asked a broader set of planning

1 questions, which is what is good for the larger region; how
2 do you deal with national security; how do you deal with
3 renewal opportunities, as we've seen in other states. We're
4 leveraging assets.

5 So I agree with her. But in this case by the
6 very definition of what we're looking at, that may be a very
7 different solution.

8 MR. BRUNEEL: It was I think alluded to earlier
9 that we're looking at a proposal in Michigan that would be
10 above 345 that would have some regional impacts. Our
11 preliminary views are if that was in place in August 2003 we
12 may not have had the blackout. Does that mean that we reach
13 out to New York ratepayers who are affected by that
14 blackout? While we're stuck with the geographic boundaries
15 that we have and we have to live with that until they're
16 changed, but clearly there are wide regional impacts here.
17 And meeting reliability criteria is obviously important.

18 Just keep in mind that there are wide regional
19 impacts of not meeting that criteria.

20 COMMISSIONER BROWNELL: We understand that.
21 Tree-trimming, operator training, and upgraded control rooms
22 might help too. But another day.

23 (Laughter.)

24 CHAIRMAN KELLIHER: I wanted to ask Ms. Wissman
25 just, you know, you argue that it would be wrong, unfair for

1 the Commission to allocate the costs of bulk power
2 transmission projects system-wide, and that the cost should
3 be recovered only from those that benefit from a project.

4 How does the State Commission currently allocate
5 distribution cost upgrades? Is that system-wide allocation
6 or is it beneficiary pay?

7 MS. WISSMAN: No. State policy has been --and I
8 remember going through rate cases where we looked at
9 different -- rural versus urban allocation processes. Those
10 were issues that we did address.

11 But, no. They are allocated system-wide in
12 Ohio.

13 CHAIRMAN KELLIHER: 100 percent of the costs?

14 MS. WISSMAN: That's right. But again, I think
15 the geographic region we're looking at is just tremendous
16 compared to looking at a service territory in a single
17 state.

18 I also think that there is an inequity when you
19 look at the disparaging investment throughout the different
20 regions. It's not that we would disagree that there would
21 be instances where 100 percent allocation of the costs are
22 appropriate so long as there are benefits.

23 But in the MISO situation because of the size of
24 the footprint and the disparities that exist we believe it's
25 inappropriate in this instance.

1 CHAIRMAN KELLIHER: It seems there's some
2 analogies. Hooking up a new subdivision in one part of
3 Ohio, it's hard to see that any other residential area of
4 the State would benefit somehow from that expansion;
5 nonetheless they help pay for it.

6 So anyway, it just seems -- it doesn't seem
7 obviously illegitimate for us to take the approach for
8 transmission upgrades that the State of Ohio takes towards
9 distribution expansion.

10 MS. WISSMAN: I believe when you look at a
11 smaller geographic region -- even though I don't want to
12 readily recognize that social ratemaking is inherent in
13 everything that we regulators do on a daily basis -- when
14 you look at a small geographic region there are other
15 benefits to that locality. There are tax revenues that are
16 involved. And in those instances I believe there are
17 immediate benefits to the customers that are being asked to
18 pick up the cost.

19 In this instance I just don't think that that
20 analogy exists.

21 CHAIRMAN KELLIHER: Part of the difficulty is
22 just starting off with the false premise that projects fall
23 neatly into a reliability box or an interstate commerce box,
24 if you will. And if you accept that abstraction maybe some
25 of what's proposed follows naturally. But they don't,

1 really.

2 A reliability project does benefit interstate
3 commerce when it's built. And we have to balance a couple
4 of different policy goals. Something has to be just and
5 reasonable. Whatever allocation scheme is approved, it has
6 to be just and reasonable.

7 But there are some broader policy goals of
8 promoting the public interest, assuring reliability,
9 encouraging interstate commerce, and administrative ease has
10 to be part of it as well because if we end up with an
11 approach that might be metaphysically perfect from one of
12 those points of view but it fails from the point of view of
13 administrative ease and people don't know what tests the
14 Commission might apply and how they might recover
15 investment, then we won't see the investment follow that
16 we're all hoping for.

17 Let me ask Larry a question or two.

18 I wanted to understand your argument. You argue
19 that using a basic load flow analysis is incorrect to figure
20 out how cost allocation should be made?

21 MR. BRUNEEL: I guess theoretically, no.

22 I was in the interesting position of having a
23 discussion with Kevin Kelly a few years ago, arguing for a
24 load flow analysis. He brought up various practical
25 considerations, getting back to some of the concerns you

1 were just expressing, Chairman Kelliher, about the
2 administrative ease of use, questions of time, you know,
3 beneficiaries change over time. And as he went through it I
4 quickly backed off, as I've learned to do with Kevin.

5 Theoretically, yes. But I think it quickly
6 becomes unmanageable.

7 CHAIRMAN KELLIHER: With respect to 20 percent
8 versus 30 percent, do you argue that that the MISO load flow
9 analysis indicates that 30 is the right number or up to 30
10 is the right number? Are you saying 30 is good because
11 that's within the range they support and that 30 is better
12 than 20 because of the other policy considerations that you
13 emphasize?

14 MR. BRUNEEL: Let me start off by saying that
15 100 percent is probably the right number. MISO started out
16 in their analysis with 30. So I tend to view that as a
17 floor. But, you know 100 percent, along with Gary here --

18 CHAIRMAN KELLIHER: You'd argue 30 is really the
19 pure number that comes out of the load flow analysis? That
20 was the starting point in the stakeholder process?

21 MR. BRUNEEL: Yes.

22 CHAIRMAN KELLIHER: And it was compromised from
23 30 to 20?

24 MR. BRUNEEL: I believe so. We were not
25 involved in that conference.

1 CHAIRMAN KELLIHER: What about the question
2 about the voltage threshold, whether it should be 230 or
3 345? What's the rationale -- TRANSLINK had 230 that was the
4 voltage threshold in the TRANSLINK proposal. But the MISO
5 proposal has 345.

6 MS. WISSMAN: The negotiation process reached
7 that, because I think they were looking for a consensus for
8 getting more people on board for a postage stamp rate.

9 I think you heard earlier this afternoon that
10 this was a compromise package and that if you deviate from
11 bits and pieces you could run into problems.

12 I think that the 345 was in fact a true
13 recognition that that is in fact bulk transmission power
14 that is more likely to provide benefits system-wide. That I
15 believe is why they reached that higher threshold from where
16 they started.

17 I would like to add that Ohio agrees absolutely
18 with that designation. We believe that anything lower would
19 be more problematic and it's going to be more difficult to
20 demonstrate benefits system-wide.

21 We do, however, caution that there may be
22 projects that are unnecessarily upgraded to 345 in order to
23 qualify for postage stamp rate treatment. If in fact we go
24 down this path we caution that there has to be a lot of
25 scrutiny in making sure that projects aren't gold-plated and

1 upgraded just to qualify for the postage stamp rate.

2 CHAIRMAN KELLIHER: Your argument isn't that a
3 230 facility is not a bulk power transmission facility?

4 MS. WISSMAN: I think that the group talked
5 about 345 being a threshold that we would recognize as being
6 more bulk power flow related. Certainly the smaller
7 transmission voltages are bulk power transmission by
8 definition. But I think that when you apply postage stamp I
9 think the industry assumes that the higher ones are
10 providing a widespread benefit, more so than the 138s or
11 230s.

12 Again, it was a negotiated number.

13 CHAIRMAN KELLIHER: Thank you.

14 Nora, do you have questions?

15 COMMISSIONER BROWNELL: No.

16 CHAIRMAN KELLIHER: Staff? Yes.

17 MR. MC LAUGHLIN: Gary, I just had a question.

18 On the first panel, they may not have pitched it
19 this way, but it kind of seemed to make the point that for
20 the 345 kV 20 percent would be allocated postage stamp and
21 then the 80 percent would be sub-regional. And it seemed to
22 argue that you were still getting some regional allocation
23 with that 80 percent.

24 Could you kind of explain or kind of tell me how
25 you see that? Do you see that sub-regional allocation so

1 effectively there is achieving a regional allocation at
2 least to some extent for all 345 kV investment or not?

3 MR. MATHIS: If I understand the question, I
4 guess what I'm saying is that, yes, there is a percent for
5 facilities that are that high voltage that you would see the
6 wide sharing of those costs. Then you would have a smaller
7 region that would be subject to the flows and would be
8 impacted around that line. And how far around depends on
9 the project. And they talked to the earlier panel about the
10 length of the project. I don't know if that answers the
11 question or not.

12 One of the potential problems I see with this is
13 people have talked earlier about well, if you're on one end
14 of MISO you're not going to benefit from even a large
15 project on the other end of MISO, at least not very much.
16 But if you're in the middle of that footprint in this
17 allocation scheme that goes on load flows it would seem that
18 with all the projects that are going on that's going to hit
19 the people in the middle just by the fact that that's the
20 footprint that got established, and would be more of a
21 reason to postage stamp a larger piece and minimize the
22 impact that you would get on the folks that are in the
23 middle.

24 MR. MC LAUGHLIN: So then, to paraphrase, is the
25 80 percent allocation fee -- while it is on a flow basis

1 depending on where you're located -- you may continually be
2 picking up pieces of that as opposed to somebody that may be
3 receiving benefits generically on the higher 345 kV line?

4 MR. MATHIS: I think that's possible. I haven't
5 done studies, and others may know better. But I think there
6 is a locational problem with the less that you postage
7 stamp.

8 CHAIRMAN KELLIHER: No questions. I can't
9 believe that we'll be ending early.

10 (Laughter.)

11 COMMISSIONER BROWNELL: We should have all these
12 panels back again, regardless of the topic.

13 Henry, there is one thing I'd ask. Assuming
14 there's an opportunity for comments, I just wanted to make
15 sure of that before I suggested this.

16 Larry, before you alluded to the fact that any
17 number that the Commission comes up with, that there has to
18 be a just and reasonable basis for it. Certainly in your
19 filings we'd like to see your best pitch at making that
20 justification for your proposals. That's all.

21 CHAIRMAN KELLIHER: I would ask Mr. Skarbakka,
22 you're representing the North Dakota industrials but not the
23 MISO industrials?

24 MR. SKARBAKKA: That's correct.

25 CHAIRMAN KELLIHER: I assume MISO industrials

1 disagree with your position?

2 MR. SKARBAKKA: Just to clarify, I represent the
3 North Dakota Industrial Commission, which is not
4 industrials. It's a state entity.

5 CHAIRMAN KELLIHER: It's a state agency. I
6 apologize. I thought I saw 'coalition.' I see now it's
7 'commission,' actually. So it's an industrial development
8 authority in the state?

9 MR. SKARBAKKA: That's correct.

10 CHAIRMAN KELLIHER: But I assume industrial
11 coalitions, private sector bodies in other states would
12 disagree, presumably. Were there industrial stakeholders in
13 the MISO process?

14 MR. KOZEY: Steve Kozey, the general counsel.

15 Yes, Mr. Chairman. There were -- both the
16 direct industrial end-use sector had representatives that
17 participated in many of the meetings.

18 CHAIRMAN KELLIHER: Mike?

19 MR. MC LAUGHLIN: Just one more.

20 Larry, there's one thing in this debate. I kind
21 of pose this question to you because I do know your building
22 transmission now. How much weight would you put on
23 regulatory certainty?

24 MR. BRUNEEL: Enormous. That's an every day
25 concern when we're dealing with Wall Street raising funds to

1 build the infrastructure up where it's needed, much
2 different from the generation sector.

3 Transmission is built upon regulated cost
4 structure and predicting the recovery of those investments
5 is incredibly important. I can't overstate it.

6 MR. MC LAUGHLIN: I guess in your mind it would
7 be better to get it -- maybe not move for exactness but to
8 basically get it as right as we can but not go back and
9 change it and reshuffle it from time to time?

10 MR. BRUNEEL: Yes. Change is very difficult for
11 us to deal with.

12 Whatever method we're using to get our revenue
13 recovery, that's difficult. And predictability, you know,
14 is part and parcel of that anathema to change.

15 MS. LORD: This question is for Ms. Wissman.

16 Have you attempted to do an analysis of the rate
17 impact that there would be of the 20 percent postage stamp,
18 realizing, of course, that for Ohio this would be a
19 complicated analysis?

20 MS. WISSMAN: No, we have not. I gave you the
21 numbers earlier in the millions. But relative to the rate
22 impact, we have not done that calculation.

23 CHAIRMAN KELLIHER: The number you gave us, you
24 gave us -- what? -- a \$78 million number on what Ohio's
25 share would be, assuming four billion dollars of

1 transmission investment. And assuming the sharing is only
2 at the 345 and above level, or is it assuming all of that
3 four billion is cost shared at 20 percent? Because four
4 billion is the total reliability investment.

5 MS. WISSMAN: I noticed that my numbers were
6 slightly different than Clair's. This may have included the
7 non-345 as well minus the exclude list. I know we did
8 something else. We did this very quickly yesterday, and I
9 noticed that my numbers were a little different than
10 Clair's.

11 I'm not sure, but my guess is that 78 million
12 might be slightly lower.

13 CHAIRMAN KELLIHER: But then it seems you
14 pointed out that Ohio at the same time would be making an
15 investment of something like \$32 million.

16 MS. WISSMAN: In the Midwest ISO transmission
17 expansion plan there are 11 projects for Ohio. That is 32
18 million, none of which would qualify for postage stamp.

19 CHAIRMAN KELLIHER: Because it's under 345?

20 MS. WISSMAN: Yes. It would either be under --
21 yes. That's what it is.

22 CHAIRMAN KELLIHER: It might be that the 78
23 million might include projects that would not be cost-shared
24 to Ohio, right?

25 MS. WISSMAN: This would just be the 20 percent.

1 This would be the 15 percent, Ohio's share of the 20 percent
2 postage stamp.

3 CHAIRMAN KELLIHER: Looking at the entire
4 universe, to me the way to do it would be to take the four
5 billion and figure out what is below 345, subtract that, and
6 then 20 percent.

7 MS. WISSMAN: Clair's numbers were the qualified
8 postage stamp is 3.7 billion. So mine was slightly higher
9 than that because I think I started at about 4.2. Then he
10 had -- I'm not sure; I'm not going to speak for Clair's
11 numbers. But I think this assumed perhaps more than just
12 the 345. It may have gone down to the 138.

13 But again, none of the Ohio projects would
14 qualify for postage stamp. I mean even if you used the AEP
15 example that they've applied for at DOE and ask for PJM to
16 put in, you know, that just taking -- because that would all
17 be under a postage stamp if this Commission were to adopt
18 this kind of policy on a going-forward basis for all
19 projects. And those numbers I think are very reflective.

20 I'm not sure there's anything we would have to
21 take out of there. And again, that's a three billion dollar
22 project in Ohio. We have 60 million, to just kind of put
23 things in perspective of how much of the share Ohio is
24 expected to pick up.

25 CHAIRMAN KELLIHER: Of the four billion dollars

1 do we know how much is 345 and above?

2 MR. MOELLER: Yes, sir. Of the four billion
3 dollars my number is 3.7. But nominally it is about \$1.4
4 billion of that is 345 kV lines under the current format.

5 CHAIRMAN KELLIHER: Do you know what's in the
6 230 to 344?

7 MR. MOELLER: 3.7 minus 1.4.

8 CHAIRMAN KELLIHER: That's for 230 and above.

9 MR. MOELLER: That's 100 kV and up. I do not
10 know the number.

11 CHAIRMAN KELLIHER: The middle band. Okay.
12 Well, that's helpful to know.

13 Any other questions?

14 (No response.)

15 CHAIRMAN KELLIHER: We can either look at each
16 other for an hour --

17 (Laughter.)

18 CHAIRMAN KELLIHER: Or we can end early. Why
19 don't we do the latter.

20 Thank you very much. Thank the panelists. It's
21 not a beautiful day here in Washington. If we'd done this
22 earlier in the week we'd have San Diego weather here. But
23 thanks for coming.

24 (Whereupon, at 4:05 p.m. the Technical
25 Conference was adjourned.)