139 FERC ¶ 61,261
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and, Cheryl A. LaFleur.

Midwest Independent Transmission System Operator, Inc. | Docket No. ER12-1577-000

ORDER CONDITIONALLY ACCEPTING TARIFF REVISIONS

(Issued June 29, 2012)

1. On April 19, 2012, pursuant to section 205 of the Federal Power Act (FPA),[1] Midwest Independent Transmission System Operator, Inc. (MISO) filed proposed revisions to Attachment FF (Transmission Expansion Planning Protocol) of its Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff). The revisions pertain to the calculation of benefits of, and the cost allocation to Local Resource Zones, Market Efficiency Projects (MEP)[2] (April 19 Filing). In this order, we

[1] 16 U.S.C. § 824d (2006).

[2] As described in more detail below, MEPs are currently defined as

> Network Upgrades: (i) that are proposed by…[MISO], Transmission Owner(s), [Independent Transmission Companies], Market Participants(s) or regulatory authorities; (ii) that are…eligible for inclusion in the MISO Transmission Expansion Plan [(MTEP)] or are approved pursuant to…the ISO Agreement after June 16, 2005…; (iii) that have a Project Cost of $5 million or more; (iv) that involve facilities of 345 kV or higher…; (v) that are not…Baseline Reliability Projects or New Transmission Access Projects; or are determined to be an [MEP] under Section III.A.2.g; and (vi) that are found to have regional benefits under…Attachment FF.

MISO Tariff, Attachment FF, Section II.B. MISO notes in the April 19 Filing that the fifth criterion should not cross-reference Section III.A.2.g but rather Section III.A.2.h, which provides that the costs of projects eligible to be both a MEP and a Baseline

(continued…)

conditionally accept MISO's proposed Tariff revisions for filing, to become effective July 1, 2012, as discussed below.

I. Background

2. On February 3, 2006, the Commission largely accepted the MTEP protocols providing for several different types of transmission projects, including Baseline Reliability Projects, New Transmission Access Projects, and Regionally Beneficial Projects.[3] MISO had proposed to file the Tariff provisions on cost allocation for Regionally Beneficial Projects, which were later renamed MEPs, within one year from the date of that filing, or by October 7, 2006. However, the Commission directed MISO to file the cost allocation proposal earlier.[4]

3. On November 1, 2006, MISO filed Tariff provisions including the benefit metrics and cost allocation of Regionally Beneficial Projects, proposing to use a weighted projection of production cost savings (70 percent) and locational marginal price (load cost) savings (30 percent) to measure economic benefits to evaluate whether a transmission project would qualify as a Regionally Beneficial Project and to allocate the costs of Regionally Beneficial Projects. In addition, MISO proposed to determine whether a transmission project qualified as a Regionally Beneficial Project using a sliding scale benefit-cost ratio based on the time that it would take for the project to reach its in-service date after approval. MISO also proposed that the benefit-cost ratio would range from 1.2 for a project with an in-service date one year out from its approval year to 3.0 for a project with an in-service date ten years out from its approval year. With respect to cost allocation, MISO proposed that Regionally Beneficial Project costs be allocated 80 percent to the planning sub-regions that were shown to benefit in proportion to such benefits and 20 percent to all load on a postage-stamp basis. This filing was accepted by the Commission subject to MISO: (1) monitoring the effectiveness of the Regionally Beneficial Project cost allocation methodology, including any need to allocate 80 percent of the costs on something other than a sub-regional basis; and (2) abiding by its commitment to make an FPA section 205 filing to amend Attachment FF if MISO

Reliability Project shall be allocated in accordance with the cost allocation procedures for MEPs. This error is corrected by MISO's proposed revisions to the definition of MEPs. *See infra* P 33.

[3] *Midwest Indep. Transmission Sys. Operator, Inc.*, 114 FERC ¶ 61,106 (RECB I Order), *order on reh'g*, 117 FERC ¶ 61,241 (2006).

[4] On August 17, 2006, the Commission issued a Notice of Extension of Time to extend the filing deadline to November 1, 2006.

developed a better metric to more reliably evaluate benefits. In addition, the Commission encouraged MISO to assess other benefit metrics and possible modifications to the benefit-cost ratio as MISO gained experience with projecting project benefits.[5]

4. The terms "MEP" and "Local Resource Zones" were proposed and accepted by the Commission in two subsequent orders. On December 16, 2010, the Commission accepted MISO's proposals to include Multi-Value Projects (MVP) as a new category of transmission projects under its Tariff and also accepted MISO's proposal to rename Regionally Beneficial Projects as MEPs.[6] On June 11, 2012, the Commission accepted a resource adequacy proposal made by MISO, which adopted the term "Local Resource Zone" to denote a geographical area within and defined by MISO to address congestion that limits the deliverability of Planning Resources.[7]

II. The April 19 Filing

5. MISO states that its proposed Tariff revisions are the result of nearly two years of stakeholder discussions. MISO states that these stakeholder discussions were initiated primarily because four years after MISO's current MEP provisions were accepted by the Commission, only one out of numerous potential economically beneficial congestion relief projects considered by MISO met all of the existing MEP criteria to qualify for cost allocation.

---

[5] *Midwest Indep. Transmission Sys. Operator, Inc*., 118 FERC ¶ 61,209 (RECB II Order), *order on reh'g*, 120 FERC ¶ 61,080 (2007).

[6] *Midwest Indep. Transmission Sys. Operator, Inc*., 133 FERC ¶ 61,221 (2010) (MVP Order), *order on reh'g*, 137 FERC ¶ 61,074 (2011) (MVP Rehearing Order). MVPs are defined in MISO's Tariff as "one or more Network Upgrades that address a common set of Transmission Issues and satisfy the conditions listed in Sections II.C.1, II.C.2, and II.C.3 of Attachment FF." MISO Tariff, Attachment FF, Section II.C. MISO described MVPs as projects that "enable the reliable and economic delivery of energy in support of documented energy policy mandates and address, through the development of a robust transmission system, multiple reliability and/or economic issues affecting multiple transmission zones." MISO, Initial Filing, Docket No. ER10-1791-000, at 2 (filed July 15, 2010).

[7] MISO defines Local Resource Zones based on: electrical boundaries of Local Balancing Authorities, strength of interconnection among Local Balancing Authorities, state boundaries, results of Loss of Load Expectation studies, the relative size of Local Resource Zone, and natural geographic boundaries. *Midwest Indep. Transmission Sys. Operator, Inc.*, 139 FERC ¶ 61,199 (2012).

6. In the April 19 Filing, MISO proposes to make several changes to Attachment FF regarding the calculation of and cost allocation for MEPs, including: (1) changing the benefits metric from 70 percent adjusted production cost savings and 30 percent load cost savings to 100 percent adjusted production cost savings; (2) changing the benefit calculation timeframe from 10 years after a project's in-service date, not to exceed 20 years from the project's approval year, to 20 years after the in-service date, not to exceed 25 years from the project's approval year; (3) changing the benefit-cost ratio from a sliding scale of 1.2 to 3.0 to a fixed threshold of 1.25; (4) changing the method for allocating costs from an allocation of 20 percent of costs on a regional postage-stamp basis and 80 percent of costs among three planning sub-regions based on benefits, to an allocation of 20 percent of costs on a regional postage-stamp basis and 80 percent of costs to seven newly-established Local Resource Zones based on a determination of benefits.

7. MISO also proposes other additional miscellaneous changes to the methodology for determining a discount rate to be used in calculating the benefits of MEPs, the definition of terms such as MEP, and references to "metrics," as well as changes to rename the Weighted Gain/No Loss benefit metric to Weighted Futures/No Loss, and to delete provisions regarding installed costs, development of additional inclusion criteria, and reporting on MEP impacts.

III. Notice of Filing and Responsive Pleadings

8. Notice of the filing was published in the *Federal Register*, 77 Fed. Reg. 27,221 (2012), with interventions and protests due on or before May 10, 2012. Illinois Commerce Commission (Illinois Commission) filed a timely notice of intervention. Timely motions to intervene were filed by: Consumers Energy Company; The Detroit Edison Company; American Municipal Power, Inc.; Manitoba Hydro and Wisconsin Public Service Corporation (Joint Commenters); Integrys Energy Group, Inc.; Iowa Utilities Board; Exelon Corporation; Wisconsin Electric Power Company; and Alliant Energy Corporate Services, Inc.

9. Timely motions to intervene and comment were filed by: American Wind Energy Association and Wind on the Wires (AWEA); Duke-American Transmission Company (Duke-American); Madison Gas and Electric Company and WPPI Energy (Midwest TDUs); MISO Transmission Owners;[8] Joint Commenters; and ALLETE, Inc.

[8] The MISO Transmission Owners for this filing consist of: Ameren Services Company, as agent for Union Electric Company, Ameren Illinois Company and Ameren Transmission Company of Illinois; American Transmission Company LLC; Big Rivers Electric Corporation; Central Minnesota Municipal Power Agency; City Water, Light & Power (Springfield, IL); Dairyland Power Cooperative; Duke Energy Corporation for

(continued…)

(ALLETE). A timely motion to intervene and protest was filed by Hoosier Energy Rural Electric Cooperative, Inc. and Southern Illinois Power Cooperative (Hoosier/SIPC).

10. Illinois Commission filed out-of-time comments. MISO and Hoosier/SIPC filed answers.

IV. Discussion

A. Procedural Matters

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the notice of intervention and the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2011), the Commission will accept Illinois Commission's late-filed comments given its interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

12. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2011), prohibits answers to a protest unless otherwise ordered by the decisional authority. We will accept MISO's and Hoosier/SIPC's answers because they have provided information that assisted us in our decision-making process.

B. Substantive Matters

13. We conditionally accept MISO's proposed Tariff revisions for filing to become effective July 1, 2012, as discussed below. At the outset, in response to MISO Transmission Owners' request that the Commission expressly state that its actions in this

---

Duke Energy Indiana, Inc.; Great River Energy; Indiana Municipal Power Agency; Indianapolis Power & Light Company; International Transmission Company; ITC Midwest LLC; Michigan Electric Transmission Company, LLC; MidAmerican Energy Company; Minnesota Power (and its subsidiary Superior Water, L&P); Montana-Dakota Utilities Co.; Northern Indiana Public Service Company; Northern States Power Company (Minnesota), and Northern States Power Company (Wisconsin), subsidiaries of Xcel Energy Inc.; Northwestern Wisconsin Electric Company; Otter Tail Power Company; Southern Indiana Gas & Electric Company; Southern Minnesota Municipal Power Agency; Wabash Valley Power Association, Inc.; and Wolverine Power Supply Cooperative, Inc.

order do not prejudge any issues related to MISO's Order No. 1000 compliance filing,[9] our determinations in this proceeding should not be construed to prejudge any issues related to MISO's Order No. 1000 compliance filing.

1. **Benefit Metrics**

a. **MISO's Attachment FF Proposal**

14. MISO proposes to determine the annual benefits of MEPs based solely on adjusted production cost savings, rather than on the current two-metric approach (70 percent adjusted production cost savings and 30 percent load cost savings).[10] According to MISO, the existing MEP benefit metrics and their weighting were selected in part to reflect that MISO's footprint at the time consisted of about 70 percent bundled load and 30 percent unbundled load, and in part to reflect a compromise view that while the benefit to the system of reduced energy costs is more appropriately captured by adjusted production cost savings, benefits for loads that purchase from the market instead of using their own generation resources may more closely track reductions in locational marginal prices. MISO contends that since then, the percentage of bundled load has increased to 90 percent.[11] MISO asserts that this load configuration change and its stakeholders' increased comfort with using a single benefit metric that more accurately captures the

[9] *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, FERC Stats. & Regs. ¶ 31,323 (2011), *order on reh'g*, Order No. 1000-A, 139 FERC ¶ 61,132 (2012).

[10] The adjusted production cost benefit metric is the calculation of production cost savings (benefits) due to the transmission expansion adjusted to reflect changes in sales and purchases that may occur as a result of the expansion. *See* RECB II Order, 118 FERC ¶ 61,209 at n.6. In calculating production cost savings, MISO considers generator startup, hourly generator no-load, generator energy and generator operating reserve costs. Production cost savings can be realized through reductions in both transmission congestion and energy losses, and also through reductions in operating reserve requirements. *See* MISO Transmission Planning Business Practices Manual, section 4.3.9. The load cost savings benefit is calculated by multiplying the change in the locational marginal price due to the transmission expansion at each load bus within the sub-region by the load bus for each period of the planning model simulation. The intent is to measure reductions in load energy payments resulting from locational marginal price reductions associated with the expansion. *See* RECB II Order, 118 FERC ¶ 61,209 at n.7.

[11] April 19 Filing at 4; Testimony of Jennifer Curran (Testimony) at 3-4.

benefit of this type of project impelled it to rely solely on adjusted production cost savings to calculate the benefits of MEPs.[12] Furthermore, MISO states that focusing on one congestion relief metric limits the potential overlap with benefits associated with other types of projects that involve regional cost sharing, such as MVPs. MISO states that it will continue to monitor the effectiveness of this proposed metric.[13]

15. MISO states that consistent with its proposal to measure benefits solely in terms of adjusted production cost savings, it is proposing to revise the Tariff provisions regarding the criteria used to determine whether a project should be included as a MEP to refer to multiple "future scenarios" rather than multiple "metrics." As a result, MISO states that it is changing its existing Weighted Gain/No Loss metric for measuring MEP economic benefits to a Weighted Futures/No Loss metric.

b. Comments

16. According to Illinois Commission, MISO's proposal to use a 100 percent adjusted production cost savings metric is unduly discriminatory because in cases where the generators are not owned within the utility structure, there is no way for retail regulators to ensure that efficiency gains, as measured by the reductions in adjusted production cost savings, will be flowed back to customers. Illinois Commission contends that because MISO is proposing to allocate the costs to load, MISO should use a benefit metric that measures benefits to load. Alternatively, Illinois Commission asserts that if MISO wishes to retain the adjusted production cost savings metric for project qualification, then load should only be allocated project costs to the extent that load is demonstrated to benefit using a load cost savings metric modeled on a realistic bid-based dispatch.

17. Illinois Commission also contends that MISO provides a very limited explanation of the "Weighted Futures" part of the new metric, and no explanation of the "No Loss" aspect. Illinois Commission asserts that the "No Loss" element is an integral part of the Weighted Gain/No Loss metric that was initially designed to protect customers in transmission pricing zones that were shown not to receive benefits from a project, or that received negative benefits. According to Illinois Commission, MISO's April 19 Filing may eliminate this protection. Additionally, Illinois Commission contends that when MISO determines which Local Resource Zones will benefit from a project, it is unknown whether MISO will net the transmission pricing zones that have a negative adjusted production cost savings value against those that have a positive adjusted production cost savings value to determine the proportional split between Local Resource Zones, or

---

[12] April 19 Filing at 4.

[13] April 19 Filing at 4; Testimony at 4.

whether MISO will zero out the negatives and only count the positives. As such, Illinois Commission asserts that the Commission cannot accept the proposal until MISO explains how the "No Loss" feature of the new Weighted Futures/No Loss metric will work at each step in the calculation and how it will be used to protect customers from unwarranted costs at least as well as the "No Loss" element of the current Weighted Gain/No Loss metric.[14]

c. Answer

18. MISO claims that the adjusted production cost savings benefit metric does capture the benefits to load when generators are not owned by vertically integrated utilities. According to MISO, the current benefit metrics of adjusted production cost savings and load cost savings are weighted, rather than additive, since both capture significantly overlapping types of economic benefits. MISO claims that of these two metrics, adjusted production cost savings aligns with the objective function of its market to minimize production cost when determining the optimal generation dispatch to serve load. Thus, MISO argues that adjusted production cost savings is the best reflection of benefits available to customers from the market, and MEPs in particular. MISO also notes that stakeholders participating in discussions of the proposed MEP revisions have expressed overwhelming support for using adjusted production cost savings as the sole MEP benefit metric.[15]

19. MISO states that as indicated by the retention of the "No Loss" terminology in the Weighted Futures/No Loss metric, the April 19 Filing "modifies only how MEP benefits are estimated, not the rule that non-benefitting areas should not be allocated costs."[16] MISO also notes that the total present value of annual benefits of a project used in the proposed MEP benefit-cost ratio calculation will reflect the positive and negative values for each Local Resource Zone.[17]

d. Commission Determination

20. We conditionally accept MISO's proposal to calculate the benefits of MEPs based solely on adjusted production cost savings as just and reasonable and not unduly

---

[14] Illinois Commission Comments at 8-9.

[15] MISO Answer at 5.

[16] MISO Answer at 5-6.

[17] *Id.* at 5-6.

discriminatory or preferential. As MISO explains, its stakeholders are increasingly comfortable with using a single benefit metric to more accurately capture the benefits to the system from this type of project. Additionally, MISO has committed to continue to monitor the effectiveness of this proposed benefit metric.

21. We disagree with Illinois Commission's contention that MISO's proposal to use a single benefit metric (adjusted production cost savings) instead of the two benefit metrics (adjusted production cost savings and load cost savings) that it currently uses is unduly discriminatory or preferential in cases where generators are not owned within the utility structure because retail regulators cannot ensure that adjusted production cost savings flow back to customers. As MISO explains in its answer, the adjusted production cost savings benefit metric and the load cost savings benefit metric capture overlapping economic benefits. These two benefit metrics quantify, in two different ways, the value of the more efficient dispatch that MEPs facilitate. MEPs will provide additional transmission capacity and reduce transmission congestion, allowing MISO to dispatch generation units with lower production costs than MISO could feasibly dispatch in their absence; this, in turn, will result in production cost savings. Where this displacement of higher-cost generation with lower-cost generation reduces the locational marginal price, load cost savings also result.

22. MISO states that the two benefit metrics capture overlapping economic benefits resulting from more efficient dispatch. We note that they do not measure identical economic benefits but rather related economic benefits. Under the MISO proposal for MEP, the existence of adjusted production cost savings in a Local Resource Zone, as defined by MISO, is indicative that a transmission project allows displacement of higher-cost generation in the Local Resource Zone with lower-cost generation, which can result in lower locational marginal prices in the Local Resource Zone. In some cases, a MEP may produce greater production cost savings than load cost savings, while in other cases, load cost savings may exceed production cost savings. Thus, the benefits that would accrue to each Local Resource Zone if load cost savings were used are as likely to be higher in some cases as they are lower in others than they would be if adjusted production cost savings were used. Moreover, it is extremely difficult, if not impossible, for any benefit metric to precisely measure future benefits of MEPs to each particular load because such benefits depend on the particular resource choices and market positions of each individual load. On balance, we find it just and reasonable and not unduly discriminatory or preferential for MISO to use the single benefit metric to reflect the benefits provided by MEPs to customers in its market.

23. While we find that MISO's answer sufficiently addresses Illinois Commission's concerns about how the "No Loss" aspect of the Weighted Futures/No Loss metric will be implemented, we find that MISO has not sufficiently explained the "Weighted Futures" aspect of the Weighted Futures/No Loss metric. We understand that MISO is proposing to change the "Weighted Gain" reference in the metric to "Weighted Futures"

because it will no longer be weighting both adjusted production costs savings and load cost savings. We also understand that MISO considers alternative future scenarios in its planning analysis. Thus, we interpret the Weighted Futures aspect of the Weighted Futures/No Loss metric as referring to how MISO considers and weights the results of such sensitivity analysis in its planning decisions, which is reasonable. To ensure that the Tariff is clear, we will direct MISO to make a compliance filing within 30 days of the date of this order to clarify the meaning of the "Weighted Futures" aspect of the Weighted Futures/No Loss metric in the Tariff language, and to justify its proposal if different from our interpretation.

2. Benefit-Cost Ratio Calculation

a. MISO's Attachment FF Proposal

24. MISO's current Tariff calculates the present values of annual benefits and costs for a minimum of 10 years after a MEP's in-service year, but not to exceed 20 years from the "current" year.[18] MISO proposes to increase the benefit calculation timeframe to include the first 20 years after a project's in-service date, but not to exceed 25 years from the project's approval year. For example, MISO asserts that "if a project has an in-service date not more than 6 years from approval year, then benefits and costs will be calculated over 20 years; however, if the in-service date is 7 years from approval year, then 19 years of benefits and costs will be used."[19] MISO contends that this change is appropriate because the benefits of transmission projects accumulate throughout the in-service life of the project. MISO explains that "[s]hortening the term during which the benefits occur skews the benefit/cost ratio down because of the front-end loading of costs that will be given greater weight in the present value calculation due to the application of a smaller discount factor."[20] MISO further explains that lengthening the benefit calculation period appropriately recognizes the long-term benefits provided by transmission investments expected to be in-service considerably longer than 20 years. According to MISO, its proposal to include the first 20 years, but not exceed 25 years from the project's approval year, balances the consideration of benefits with the uncertainty of predicting benefits in the later years of a project's life.[21]

---

[18] MISO explains in the April 19 Filing that "current" year is intended to refer to, but not specifically reference a project's approval year. April 19 Filing at 5.

[19] *Id.*

[20] *Id.*

[21] April 19 Filing at 5; Testimony at 6.

25. MISO's existing Tariff provides that a MEP must meet an applicable benefit-cost ratio on a sliding scale based on the time it takes for a project to reach its in-service date after the approval. The ratio ranges from 1.2 for a project with an in-service date one year out from the approval year, to 3.0 for a project 10 years out. MISO proposes to change the benefit-cost ratio from a sliding scale based on the time it takes for a project to reach its in-service date after approval to a fixed threshold of 1.25. MISO asserts that this ratio appropriately captures the economic uncertainty of transmission projects, while not setting thresholds so high that projects with net benefits to load are not approved and constructed. MISO notes that the proposed ratio is closer to that used for applicable MVPs of 1.0, and specifically aligns with MISO's current Cross-Border MEP methodology with PJM included in the MISO-PJM Joint Operating Agreement.[22]

b. Comments

26. ALLETE, AWEA, and Joint Commenters argue that calculating a benefit-cost ratio 20 years after the in-service date (with a maximum planning horizon of 25 years from the project's approval year) is unreasonable for projects that have long lead times due to size, association with long lead time generation projects, coordination with inter-related transmission, or challenging routing and environmental issues. They contend that MISO has not sufficiently justified the proposed timeframe, and that it could lead to discriminatory and unreasonable treatment for these complex projects because MISO may consider fewer years of the benefits that they provide than for a project whose in-service date is within five years of its approval date. ALLETE, AWEA, and Joint Commenters note that at a January 26, 2012 Regional Expansion Criteria and Benefits (RECB) Task Force meeting, Manitoba Hydro introduced a motion to revise the timeframe for calculating the benefit-cost ratio so as "not to exceed the greater of: (a) 25 years from the project's approval year; or (b) 20 years plus the shortest practical and prudent project implementation period as determined by MISO."[23] ALLETE, AWEA, and Joint Commenters assert that because this motion was supported by a majority of stakeholders (23 supporting, 10 opposing, 12 abstaining),[24] and had fewer stakeholders in opposition than the MISO proposal (25 supporting, 15 opposing, 4 abstaining),[25] it is not clear why MISO chose its proposed revisions.

---

[22] April 19 Filing at 5; Testimony at 5.

[23] ALLETE Comments at 4; AWEA Comments at 6; and Joint Commenters Comments at 5.

[24] RECB Task Force January 26, 2012 Meeting Minutes at 2.

[25] *Id.*

27. Duke-American filed supporting comments regarding the MISO's filing generally and in particular, the lowering of MISO's MEP benefit-cost ratio to a fixed benefit-cost ratio of 1.25.[26] Duke-American states that adjusting the calculation methodology of the benefit-cost ratio metric and increasing the timeline for analyzing benefits of MEPs will result in a more accurate evaluation of potential transmission projects that are designed to provide economic benefits to the MISO region.

c. Answer

28. Hoosier/SIPC argue that the Commission should reject ALLETE, AWEA, and Joint Commenters' suggestions regarding the timeframe to calculate benefits on the grounds that they do not demonstrate that MISO's proposal is unjust and unreasonable. Hoosier/SIPC state that while commenters believe that their proposal would be superior, the FPA does not permit the Commission to reject a Tariff filing that is just and reasonable simply because an alternative approach might be considered superior.[27] Regardless, Hoosier/SIPC contend that MISO's proposal is superior as the calculations of benefits beyond 25 years from the date of a project's approval are too speculative to form the basis for spending millions of dollars, especially when part of those costs will be allocated on a postage-stamp basis to entities that may not see any real benefits from the projects in question. Hoosier/SIPC assert that MISO has reasonably balanced the need to consider long-term benefits with the uncertainty of calculating such benefits, and that in the absence of a demonstration that MISO's proposal is unjust and unreasonable, there is no basis for substituting commenters' alternative proposal.

---

[26] Duke-American at 3.

[27] Hoosier/SIPC Answer at 3 (citing *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995)) (finding that under the Federal Power Act, as long as the Commission finds a methodology to be just and reasonable, that methodology "need not be the only reasonable methodology, or even the most accurate"); *Cities of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (utility needs to establish that its proposed rate is reasonable, not that it is superior to alternatives); MVP Order, 133 FERC ¶ 61,221 at P 384 (accepting highly-contested revisions to the Midwest ISO cost allocation methodology and stating "Filing Parties must prove that the proposed rate is just and reasonable, not that it is the best rate"); *Cal. Indep. Sys. Operator Corp.*, 120 FERC ¶ 61,023, at P 45 & n.34 (2007) ("For a proposal to be acceptable, it need not be perfect nor even the most desirable; it need only be reasonable"), *aff'd sub nom. Sacramento Mun. Util. Dist. v. FERC*, 616 F.3d 520 (D.C. Cir. 2010)).

d. Commission Determination

29. We accept MISO's proposed benefit calculation timeframe as just and reasonable and not unduly discriminatory or preferential. We find that MISO's proposal balances uncertainty in calculating benefits (which generally increases as benefits are projected farther into the future) with the need to account for the long-term benefits that MEPs are expected to provide.[28]

30. We disagree with protestors that MISO's proposed timeframe will not treat all MEPs comparably. MISO's proposed benefit timeframe calculation will be applied to all MEPs consistently; it is the differing nature of the MEPs themselves that will determine for how many years benefits will be calculated. We find that it is just and reasonable and not unduly discriminatory or preferential for MISO to calculate the benefits of a MEP for no longer than 25 years after its approval year given that uncertainty in calculating benefits increases as the timeframe over which benefits are calculated is extended farther into the future.

31. We need not consider the alternate timeframe for calculating the benefit-cost ratio proposed by Manitoba Hydro at the RECB Task Force Meeting. Under FPA section 205, MISO has the burden to prove that its proposed tariff revisions will result in just and reasonable rates,[29] and the Commission's obligation is to review the proposed tariff revisions to determine whether they are just and reasonable and not unduly discriminatory or preferential.[30] As noted above, we find that MISO has met its burden.

---

[28] *See PJM Interconnection, L.L.C.*, 123 FERC ¶ 61,051, at P 79 (2008) (rejecting a request to modify a proposed 15-year planning period for PJM's proposed Regional Economic Transmission Planning process, finding the 15-year period to be "a reasonable period of time for PJM's planning horizon in order to calculate the costs and benefits of economic projects that will remain in its system for decades" and that "[i]t matches PJM's overall planning horizon and sends signals for new construction that has long-term benefits."); *see also Southwest Power Pool, Inc.* 125 FERC ¶ 61,054, at P 39 (2008).

[29] *See Cities of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984); MVP Order, 133 FERC ¶ 61,221 at P 384; *Cal. Indep. Sys. Operator Corp.*, 120 FERC ¶ 61,023 at P 45 & n.34, *aff'd sub nom. Sacramento Mun. Util. Dist. v. FERC*, 616 F.3d 520 (D.C. Cir. 2010).

[30] *American Elec. Power Serv. Corp. v. FERC*, 116 FERC ¶ 61,179, at 61,757 (2006).

32. We find that MISO's proposal to the replace the current sliding scale benefit-cost ratio with a fixed benefit-cost ratio of 1.25 is just and reasonable because it balances the economic uncertainty of transmission projects with the prospect of approving and constructing projects that provide benefits.

3. MEP Eligibility Criteria

a. MISO's Attachment FF Proposal

33. MISO proposes to revise the description of a MEP to clarify that a project otherwise eligible to be a MEP will instead be classified as a MVP if it also qualifies as a MVP, and that a project eligible to be a MEP will be classified as such even if it also qualifies to be a Baseline Reliability Project[31] or a New Transmission Access Project.[32] The proposed change would result in the fifth criteria for qualification as a MEP being: "that are not determined to be MVP projects." This change to the definition of MEPs is reflected as follows in MISO's proposed Tariff:

> Network Upgrades: (i) that are proposed by the Transmission Provider, Transmission Owner(s), ITC(s), Market Participant(s), or regulatory authorities; (ii) that are found to be eligible for inclusion in the MISO Transmission Expansion Plan or are approved pursuant to Appendix B, Section VII of the ISO Agreement after June 16, 2005, applying the factors set forth in Section I.A. of this Attachment FF; (iii) that have a Project Cost of $5 million or more; (iv) that involve facilities with voltages of 345 kV or higher; and that may include any lower voltage facilities of 100kV or above that collectively constitute less than fifty percent (50%) of the combined project cost, and without which the 345 kV or higher facilities could not deliver sufficient benefit to meet the required benefit-to-cost ratio threshold for the project as established in Section II.B.1.e, or that otherwise are needed to relieve applicable reliability criteria violations that are projected

---

[31] MISO defines Baseline Reliability Projects as "Network Upgrades identified in the base case as required to ensure that the Transmission System is in compliance with applicable national Electric Reliability Organization ("ERO") reliability standards and reliability standards adopted by Regional Reliability Organizations and applicable within the Transmission Provider Region." MISO Tariff, Attachment FF, Section II.A.1.

[32] MISO defines New Transmission Access Projects as "Network Upgrades identified in Facilities Studies and agreements pursuant to requests for transmission delivery service or transmission interconnection service under the Tariff." MISO Tariff, Attachment FF, Section II.A.2.

> to occur as a direct result of the development of the 345 kV or higher facilities of the project; (v) that are not determined to be Multi ValueBaseline Reliability Projects ~~or New Transmission Access Projects; or are determined to be an Market Efficiency Project under Section III.A.2.g~~; and (vi) that are found to have regional benefits under the criteria set forth in Section II.B.1 of this Attachment FF.[33]

MISO also proposed revisions to Section III.A.2.h to add that projects that qualify as New Transmission Access Projects and MEPs would be classified as MEPs.

b. Comments

34. Illinois Commission asserts that MISO should be required to define what constitutes a "project" in Section II.B of the proposed Tariff, which provides several criteria that will be used to determine the classification of a MEP. Illinois Commission contends that, without a clear definition, transmission facilities may be strategically added to or subtracted from a project merely to meet the MEP qualification criteria. It also suggests that MISO include a mechanism that would hold project developers to the estimated project costs that are used in calculating the benefit-cost ratio that qualifies a project for MEP cost sharing.

c. Answer

35. In regard to defining a "project," MISO states that the definition of a MEP with reference to market efficiency benefits has already been found just and reasonable by the Commission.[34] Thus, MISO argues that Illinois Commission's arguments against the adequacy of the MEP definition for purposes of determining what constitutes a MEP are barred by collateral estoppel and beyond the scope of this proceeding.

36. MISO asserts that a mechanism to hold actual project costs to estimates used in determining a MEP's benefit-cost ratio is not required because its current MEP Tariff provisions, which have been found to be just and reasonable, do not include such a mechanism. Furthermore, MISO also notes that the Tariff generally adheres to Good Utility Practices,[35] which requires Transmission Owners to comply with Good Utility

[33] MISO Tariff, Attachment FF, Section II.B.

[34] *Id.* at 3-4 (citing MVP Order, 133 FERC ¶ 61,221; MVP Rehearing Order, 137 FERC ¶ 61,074).

[35] *Id.* at 9 (citing MISO Tariff, Section 1.274).

Practice, as well as industry standards, in connection with their construction obligations, and thus, includes cost containment.

d. Commission Determination

37. We disagree with Illinois Commission's arguments regarding how a "project" would qualify as a MEP. MISO has not proposed wholesale changes to how it defines MEPs, but rather MISO made one change to one of the criteria for qualification as a MEP to make it consistent with the definition of MVPs in Section II.C.2.[36] Therefore, we find that Illinois Commission's request for a more precise definition of a "project" that would qualify as a MEP is beyond the scope of this proceeding because MISO has not proposed changes to the overall approach of how to define MEPs. For this same reason, we also find that Illinois Commission's suggestion that MISO develop a mechanism to hold project developers to estimated costs is beyond the scope of this proceeding.

4. Cost Allocation

a. MISO's Attachment FF Proposal

38. MISO's Tariff currently allocates the cost of MEPs as follows: 20 percent through postage-stamp allocation to all load, and 80 percent to the three planning sub-regions based on the relative benefit determined for each planning sub-region. MISO proposes to revise the benefit-based cost allocation so that the 80 percent portion currently allocated to the three planning sub-regions will instead be allocated to seven new Local Resource Zones in proportion to the benefits received by each of them. MISO asserts that within each Local Resource Zone, the costs will be further allocated to each pricing zone based on load ratio share, similar to the current methodology's cost allocation to pricing zones within the three planning sub-regions.

39. MISO also proposes to define Local Resource Zones in accordance with Module E of its Tariff. Proposed Section II.B.1.a.i of Attachment FF states that:

> If the Local Resource Zones as defined in accordance with Module E for Resource Adequacy purposes are modified, the Transmission Provider, working with stakeholders, may define different Local Resource Zones for

---

[36] MISO only proposes revising the definition to include Network Upgrades "that are not determined to be Multi-Value Projects" rather than Network Upgrades "that are not determined to be Baseline Reliability Projects or New Transmission Access Projects; or are determined to be a Market Efficiency Project under Section II.A.2.g." *See* April 19 Filing at 7.

purposes of allocating Market Efficiency Project costs. The definition of different Local Resource Zones in connection with the allocation of Market Efficiency Project costs will be detailed in the Business Practice Manual for Transmission Planning.

40. According to MISO, using the distribution of benefits at the Local Resource Zone level to determine the allocation of 80 percent of the MEP costs strikes an appropriate balance between: (1) using the current, much larger planning sub-regions, which could result in benefits received not being roughly commensurate with costs, and (2) the "false precision" of using the more granular pricing zones that may not accurately capture the impact from individual stakeholder actions that may change over time.[37] Moreover, MISO contends that the recommended change is also consistent with the approach used in the MVP Portfolio business case, which shows the distribution of project benefits at the Local Resource Zone level.[38]

b. Comments

41. Illinois Commission argues that MISO should conduct the benefit-cost analysis and allocate costs at the individual utility or transmission pricing zone level to provide the granularity needed to confirm that load serving entities will receive benefits commensurate with the costs they will be allocated.

42. Hoosier/SIPC contend that MISO should be required to specify in its Tariff, rather than in the Business Practice Manuals as proposed, the means by which the seven Local Resource Zone boundaries are defined. Illinois Commission also contends that MISO should allocate the 20 percent of the MEP costs currently allocated on a postage-stamp basis directly to the beneficiaries identified by MISO under its proposed Weighted Futures/No Loss benefit metric.

c. Answer

43. MISO asserts that since the Commission has previously acknowledged that determining MEP benefits at the pricing zone level is not appropriate due to forecasting difficulties,[39] Illinois Commission bears the burden of proving otherwise.[40] MISO

---

[37] April 19 Filing at 6; Testimony at 8.

[38] April 19 Filing at 6; Testimony at 8-9.

[39] MISO Answer at 7 (citing RECB II Order, 118 FERC ¶ 61,209 at PP 73-74, 135).

asserts that Illinois Commission has not met this burden, as it has not submitted any explanation, or documentary or testimonial evidence demonstrating the reliability of determining MEP benefits for individual pricing zones. In addition, MISO reiterates that although production cost models calculate results at the pricing zone level, there is a false precision in using those results to determine a fixed allocation of costs to each pricing zone over the long life of a transmission line due to the uncertainty in accurately forecasting each party's transactions in the market. Thus, MISO asserts that aggregating pricing zone benefits at the Local Resource Zone level will minimize the risk of falsely identifying beneficiaries and failing to allocate costs to free-riders. Moreover, MISO contends that the Commission has recognized the risks of too much granularity due to "the current capabilities and limitations of the available tools used to measure the benefits of an integrated network."[41]

44. In response to Illinois Commission's assertion regarding the allocation of 20 percent of MEP costs on a postage-stamp basis, MISO states that the April 19 Filing does not address the Tariff's current provision to allocate 20 percent of MEP costs regionally. MISO explains that the allocation is based on the estimated level of shared system usage, and that the April 19 Filing does not mention any change in that level. Accordingly, MISO contends that Illinois Commission's argument is beyond the scope of this proceeding.

d. Commission Determination

45. We conditionally accept MISO's proposed revisions regarding cost allocation to Local Resource Zones as just and reasonable and not unduly discriminatory or preferential because these revisions ensure that the benefits to each Local Resource Zone are calculated using a more accurate methodology than they are at the present time. We deny Illinois Commission's request regarding increased granularity. Although the Commission has the duty of "comparing the costs assessed against a party to the burdens imposed or benefits drawn by that party,"[42] this does not require a customer-by-customer

---

[40] *Id.* (citing *Town of Norwood, Mass. v. FERC*, 476 F.3d 18, 29 (1st Cir. 2007) (stating that the party that is attacking a longstanding tariff provision bears the ultimate burden of proof that it is not appropriate to use going forward); *see also Mo. Pub. Service Commission and Midwest Indep. Transmission Sys. Operator, Inc.*, 130 FERC ¶ 63,014, at P 65 (2010) (stating that "the burden of proof falls on whoever challenges the filed M[ISO] rate formula" and that the challenger must prove the rate "is unjust and unreasonable and that the challenger's proposed alternative is just and reasonable.")).

[41] *Id.* at 8 (citing MVP Rehearing Order, 137 FERC ¶ 61,074 at P 131).

[42] *Southwest Power Pool, Inc.*, 137 FERC ¶ 61,075 at P 24 (2011) (citing *Illinois*

(continued…)

or load-zone by load-zone benefit-cost analysis.[43] We find that MISO's proposal represents a reasonable balance between increased granularity (i.e., from three planning sub-regions to seven Local Resource Zones) in its calculation of the benefits of MEPs to help ensure that costs are allocated to those who benefit, and the uncertainty arising from the calculation of benefits on a more granular level based on factors that may change over time, particularly as benefits are calculated farther into the future.

46. However, we direct MISO to provide further clarification regarding the means by which the seven Local Resource Zone boundaries are defined. As noted above, Section II.B.1.a.i of Attachment FF states that Local Resource Zones will be defined in accordance with Module E of the Tariff, but may later be modified and reflected only in the Business Practice Manual for Transmission Planning. In a separate proceeding, the Commission recently required MISO to incorporate into its Tariff a map depicting the Local Resource Zones. As part of that filing, MISO must provide a justification for the proposed zonal boundaries and explain any analysis it relied upon as a basis for its proposal.[44] However, those zonal boundaries will not take effect until the Planning Year commencing June 1, 2013. As noted above, the instant filing, which also depends on Local Resource Zones for cost allocation, will become effective July 1, 2012, so there may be no map on file of Local Resource Zones under Module E that would be used as the basis for allocating MEP costs. We therefore direct MISO to submit a compliance filing within 30 days of the date of this order to incorporate into its Tariff the map of its proposed Local Resource Zones for MEP cost allocation that it included in the instant filing. As part of that filing, MISO must provide a justification for the zonal boundaries that MISO will use until it submits its compliance filing in ER11-4081-000 and explain any analysis it relied upon as a basis for those zonal boundaries.

47. We note that if MISO wants to use "Local Resource Zones" as a defined term in the Tariff, the geographical boundaries of the Local Resource Zones must be identical in all applications. If MISO proposes to use different geographical boundaries for different purposes, e.g., for resource adequacy requirements and for MEP cost allocation, MISO cannot use the same term, i.e., "Local Resource Zones," to identify these geographically

---

Commerce Commission, 576 F.3d 470, at 476, 477 (7th Cir. 2009) (citing *Midwest ISO TOs v. FERC*, 373 F.3d 1361 at 1368 (D.C. Cir. 2004))); MVP Order, 133 FERC ¶ 61,221 at P 195, *order on reh'g*, 137 FERC ¶ 61,074.

[43] *Southwest Power Pool, Inc.*, 137 FERC ¶ 61,075 at P 25; MVP Rehearing Order, 137 FERC ¶ 61,074 at PP 121-31.

[44] *Midwest Indep. Transmission Sys. Operator, Inc.* 139 FERC ¶ 61,199 at P 86.

different zones, and must define the term for the geographical zones used in allocation the costs of MEPs in its Tariff.

48. We find that Illinois Commission's concerns regarding MISO's continued use of a 20 percent regional postage-stamp cost allocation are beyond the scope of this proceeding as the Commission has previously found this provision of MISO's Tariff to be just and reasonable.[45]

5. Other Tariff Changes

a. MISO's Attachment FF Proposal

49. MISO's current Tariff and the relevant Business Practices Manual do not explicitly set forth the methodology for determining a discount rate to be used in calculating the benefits of MEPs. MISO's proposed Tariff revisions will annually calculate a discount rate equal to the transmission owners' gross transmission plant-weighted after-tax Weighted Average Cost of Capital as provided in Attachment O of the Tariff. MISO states that this change will adopt a known and repeatable discount rate methodology. Additionally, MISO explains that this methodology is similar to the discount rate methodology described in the Joint Operating Agreement between MISO and PJM Interconnection, L.L.C. (PJM), and used to evaluate Cross-Border Market Efficiency Projects.

50. In addition, MISO is proposing to delete an unnecessary reference to "installed" costs with respect to the benefit-cost ratio, as well as reporting requirements for developing additional project criteria and for MEP project impacts. MISO explains that both reporting requirements were only applicable to a three-year period immediately following the implementation of the Tariff's original MEP provisions, and that this time has passed, rendering the provisions unnecessary.

b. Commission Determination

51. The proposed Tariff revisions related to the methodology for determining a discount rate to be used in calculating the benefits of MEPs, expired reporting requirements, and a deleted reference to "installed" costs in relation to the benefit-cost ratio are uncontested. We find that MISO's explanations and justifications for its proposed revisions demonstrate that they are just and reasonable, and we will accept them on that basis.

---

[45] RECB II Order, 118 FERC ¶ 61,209 at P 66.

<u>The Commission orders</u>:

(A) MISO’s proposed Tariff revisions are hereby conditionally accepted for filing, to become effective July 1, 2012, as discussed in the body of this order.

(B) MISO is directed to submit a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission. Commissioner Clark is not participating.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.