

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Promoting Regional Transmission Planning
And Expansion to Facilitate Fuel Diversity
Including Expanded Uses of Coal-fired Resources

Docket No. AD05-3-000

COMMENTS OF JAMES P. TORGERSON, MIDWEST ISO

I appreciate the opportunity to return to the State in which I spent a considerable amount of my early career. In the 1980s, I was with Diamond Shamrock and was involved with the Company's West Virginia coal operations. As a result, I have a deep appreciation for the value of coal as a fuel resource, and the challenges involved in its extraction and transportation.

Recent events have underscored the need to maintain a balance in fuel resources used for the generation of electricity. Increases in fuel cost dramatically affect the economics of power plant operations and the optimal dispatch of generation resources. In order to maximize the efficient production of electricity, it is essential that regional grids be planned and operated in a manner that provides market access to a broad array of generating facilities.

The transmission planning process of the Midwest ISO is twofold; one is internal and the other is external. Internally, the Midwest ISO issued our first regional transmission expansion plan in June 2003. That plan evaluated the impact of regional transmission expansion on the energy costs of customers. Overall, we considered nearly a dozen regional expansion plans in that first effort, and found several that looked like they would easily pay for themselves when the reductions in overall production costs were considered. An important part of our planning process is to ensure that transmission opportunities provided to new resources do not curtail transmission access to existing resources. To this end, we worked closely with both coal and wind project developers to provide market access to new wind facilities without prejudicing existing coal-fired generation.

Since then, we have continued to work with stakeholders on some of the more promising of these plans, particularly in the Northwest part of the Midwest ISO where we have seen significant collaborative interest on the part of developers, industrial groups, transmission owners, state regulatory authorities, and other state interests.

We expect to be able to recommend specific plans in this area and identify principal beneficiaries by the completion of our next regional plan in 2006. Over that time frame, we will also be looking more closely at other key areas further to the east in southern Illinois, Indiana, Ohio, and Kentucky that have significant coal development plans, in an effort to define regionally beneficial transmission in those areas.

While complex, the identification of worthy transmission upgrades and expansions is the easiest part of the process. The proverbial rubber meets the road when it comes time to allocate the cost of transmission enhancements. We have been fortunate to have input from the Organization of MISO States, or “OMS,” in developing a regional transmission pricing policy. The Midwest ISO has been engaged in a dialogue with the OMS and other stakeholders on the development of a comprehensive cost-allocation policy for both reliability and economic, or regionally beneficial, projects. We expect to be filing tariff revisions to establish protocols for cost sharing of reliability projects within a few months, with additional work expected to continue for another year to address economic projects.

Most stakeholders accept the idea that some level of cost sharing among pricing zones is an appropriate reflection of the regional use of transmission grid additions, particularly in the market environment now in place in the Midwest ISO. The OMS has provided guiding principles that cost allocation should be guided by cost causation and determination of beneficiaries. Tough questions that stakeholders are wrestling with are: the best measures of benefit that are both reasonable and yet can be implemented without endless debate; the distance over which the benefits of transmission extend in a very large RTO; and, the degree to which different parts of the system have been similarly planned historically, such that one area does not subsidize another in bringing all areas to similar standards.

One concept that has some momentum in these discussions is a so-called “rough justice” approach to cost allocation. This concept seeks to recognize the sometimes difficult-to-target benefits of major transmission additions, for which the aggregate benefits to customers as a whole can more easily be demonstrated. This cost allocation approach blends elements that recognize wider area benefits, with more localized effects, and also sets some upper bounds to shared costs as a means to encourage efficiency, and addresses the regional differences that may exist. The result is a proposal to allocate projects as a blend of part postage stamp, part sub-regional, and part local, once a project passes certain threshold criteria for need and cost sharing.

Whatever policy results from these continuing discussions, it will be crucial for the State Committee to continue to shape the discussions along lines that are generally considered reasonable and equitable so that transmission owners can have a reasonable expectation of recovering costs they incur for these needed regional projects.

The second aspect of our transmission planning process is to promote the free flow of electricity between RTOs and other transmission providers. To this end, we have entered into Joint Operating Agreements, or “JOAs,” with PJM and the Southwest Power Pool,

and have in place a memorandum of understanding with TVA. Both of the JOAs include detailed provisions that will promote the identification of cross border facilities that will reduce the need to invoke Transmission Loading Relief orders, manage loop flow and enhance inter-regional power flows. The JOAs also include cost allocation procedures that are designed to ensure that participants in one RTO are not asked to unfairly subsidize facilities that predominately benefit consumers in another RTO. Having adopted objective “rules of the road” up front, we hope to avoid the uncertainty of cost recovery that has plagued multi-regional transmission projects in the past.

While we intend that the inter-RTO planning process be robust, we also intend to look in the first instance to market solutions to transmission constraints. With compatible markets in both PJM and the Midwest ISO, we expect price signals to identify the transmission corridors in which transmission enhancements will be most valuable and will permit resources to flow naturally according to their value to the market. Through the combination of Locational Marginal Cost Pricing and Financial Transmission Rights, the system itself should encourage individual market participants to accept cost responsibility for projects that will produce economic gains in excess of the cost of the transmission enhancements.

Finally, it is worthwhile to keep in mind in the discussion of transmission pricing policy that the transmission component of the customer’s electric bill is generally less than 10%. We need to get on with the prudent development of the transmission grid that will enable a competitive energy market to help reduce the other 90% of electricity costs. And certainly, transmission planning and pricing that enables coal-based resources to participate in that competitive market must be a fundamental part of that policy.