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# FEDERAL ENERGY REGULATORY COMMISSION



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## NEWS RELEASE

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### FOR IMMEDIATE RELEASE

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Docket Nos. ER06-18

### COMMISSION ACTION ON MIDWEST ISO COST ALLOCATION EXPECTED TO ENHANCE TRANSMISSION INVESTMENT

The Federal Energy Regulatory Commission today accepted the Midwest Independent Transmission System Operator's proposed methodology for allocating the costs of new transmission infrastructure. Today's order reaffirmed a February 3, 2006, order accepting revisions that incorporated transmission expansion planning protocols into the Midwest ISO's open-access transmission tariff, and accepted a related compliance filing from Midwest ISO making revisions directed by the February order.

Commission Chairman Joseph T. Kelliher observed:

"Today's order represents the third time and in the third region that the Commission has grappled with the challenging issue of transmission cost allocation. In all three regions – New England, the Southwest Power Pool and now the Midwest – the Commission accepted a different approach. This illustrates the regulatory flexibility of the Commission. But more significantly, we expect today's action will enhance investment in transmission infrastructure in the Midwest."

At the same time the Commission conditionally accepted the Midwest ISO's transmission expansion protocols in February, the Commission directed a technical conference to discuss the regional cost-sharing for baseline reliability projects rated at 345 kilovolts and above. Today's order addresses supplemental evidence originating from the April 21, 2006, technical conference and accepts the Midwest ISO's cost allocation methodology for those Baseline Reliability Projects.

The Midwest ISO's cost allocation methodology is an outgrowth of a July 8, 2004, Commission order that encouraged Midwest ISO stakeholders to develop a permanent transmission pricing policy based on the Organization of MISO States' principle that entities that cause and benefit from transmission upgrades should pay for them.

For Baseline Reliability Projects with a voltage class of 345 kilovolts and above,

the Midwest ISO's cost-sharing methodology calls for allocating 20 percent of the costs systemwide on a load-ratio share basis, while 80 percent would be allocated subregionally to all transmission customers in the designated pricing zones affected by the project. For Baseline Reliability Projects with a voltage class between 100 kilovolts and 345 kilovolts, all of the costs would be allocated subregionally to all transmission customers in the designated pricing zones affected by the project.

In today's order, the Commission reaffirmed the allocation of 20 percent of costs for extra-high-voltage projects systemwide, or on a "postage stamp" rate basis, denying calls from various stakeholders for greater allocation of costs on a postage-stamp basis.

However, the Commission directed the Midwest ISO and the Midwest ISO transmission owners to study the effectiveness of the 20 percent postage-stamp cost-sharing methodology in June 2007, when they review the rate design base rates for existing transmission facilities.

The Commission also reaffirmed the Midwest ISO's "innovative cost-recovery method" for generation interconnection cost allocation, which calls for generators to be responsible for 50 percent of the transmission upgrade costs if the generation output is committed to network customers or designated as a network resource. Otherwise, the generator interconnection customer is responsible for 100 percent of the costs of transmission upgrades required for interconnection.

The Commission denied rehearing, rejecting arguments that this approach would "chill" generation investment in the Midwest. "In most cases, we do not believe that such costs have been the determining parameter in deciding whether or not a particular project is going to be built. For the majority of projects requiring generator interconnection, the network upgrade costs associated with generator interconnection are likely to be only a small percentage of the overall project costs and, thus, not determinative of whether the project will be built," the Commission said.

Nevertheless, the Commission directed the Midwest ISO to file, within 12 months, an informational report on its experience under its innovative cost recovery methodology.

The Midwest ISO must include in the report, among other things:

- a listing of interconnection requests for generation projects received during the period;
- the projected cost of network upgrades associated with each project, the projected total generator interconnection costs for each project;
- the projected total cost of each project
- the planned megawatt size of each project;
- the type of interconnection service requested for each project; and

- whether each project is remotely located from the transmission grid or aggregate load.

Based on that informational report, the Midwest ISO is directed to provide, within 12 months, either:

- a detailed and supported explanation as to how smaller-scale generation projects remotely located from the transmission grid or aggregate load are not disproportionately affected by the cost allocation methodology, such that no revision is necessary to that methodology; or
- proposed revisions to the cost allocation methodology that correct any disproportionate impact on remotely located, smaller-scale generation.

The Midwest ISO Transmission Owners include: Alliant Energy Corporate Services Inc.; Aquila Inc.; Cinergy Services Inc.; City of Columbia Water and Light Department; City Water, Light & Power of Springfield, Illinois; Great River Energy; Hoosier Energy Rural Electric Cooperative Inc.; Indianapolis Power & Light Co.; Lincoln Electric System; Minnesota Power (and its subsidiary Superior Water Light & Power); Montana-Dakota Utilities Co.; Northern Indiana Public Service Co.; Northwestern Wisconsin Electric Co.; Southern Illinois Power Cooperative; Southern Indiana Gas & Electric Co.; and Wabash Valley Power Association Inc.

MISO also includes three stand-alone transmission companies: American Transmission Co., International Transmission Co. and Michigan Electric Transmission Co.

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