Comments of Wind on the Wires
Regarding the MISO and TO Cost Allocation Proposals
April 15, 2010

Wind on the Wires (WOW) appreciates the efforts of the Organization of MISO States Members and Cost Allocation Regional Planning Representatives (collectively referred to as "CARP Representatives") to work within the Cost Allocation Regional Planning ("CARP") process and the Midwest ISO Regional Expansion Criteria & Benefits ("RECB") Task Force to improve cost allocation for new transmission additions in the Midwest. The purpose of this letter is to highlight the concerns WOW has with the current Midwest ISO Straw Proposal, and the Supporting Transmission Owners' proposed Cost Allocation Framework. We offer several suggestions regarding how we believe each of these proposals can be improved to further address concerns of wind generators.

I. Comments on the Midwest ISO's March 22, 2010 Injection-Withdrawal Proposal

Wind on the Wires appreciates the work the Midwest ISO staff has done to develop, analyze and adjust the Injection-Withdrawal proposal for cost allocation. We believe the March 22nd proposal ("MISO Straw Proposal") has several improvements over earlier versions of the Injection-Withdrawal proposal, including removal of the regional layer charges to generators and increased cost certainty through the use of forecasts of new transmission investments and a fixed distribution of costs between the local and regional layers five years out. We are also pleased that the Midwest ISO is considering charging generators on the local layer a rate that is based on something less than nameplate capacity.

A. Transition Concerns

WOW continues to have significant concerns regarding the MISO Straw Proposal's lack of a "transition solution" during the time period between the date the Midwest ISO files its proposal with FERC, and the date that proposal would go into effect for new transmission investments. Our specific concerns are threefold:

1. The System Planning Analysis ("SPA") Process

The MISO Straw Proposal does not clearly identify whether network upgrades that have been identified as needed for generator interconnection through the System Planning Analysis ("SPA") process will be allocated to the regional layer. Many network upgrades that have been identified as needed for generator interconnection through the current SPA process look very much like lines that have been identified through the Regional Generation Outlet Study ("RGOS").

The SPA includes a number of transmission lines analyzed as a group. Inherent in grouping a number of transmission lines for analysis is the regional benefit – similar to RGOS. These projects currently lack financial backing. If the transmission lines identified in the SPA are not included as a cost overlay project they probably will not be built.

If lines identified in the SPA are not included as cost overlay projects, generation that depends on these SPA lines would not be competitive with projects that would rely upon MTEP designated lines, leaving the SPA cycle 1 generation with no option but to drop out of the queue. In effect, generators who willingly participated in the SPA process will be penalized under the MISO Straw Proposal.

WOW therefore recommends that CARP Representatives request that MISO modify its Straw Proposal to resolve this issue by incorporating criteria to determine which of the transmission lines identified in the SPA should be allocated through the local and regional layers as overlay projects, rather than as network upgrades for generator interconnection.

2. The Brookings Line Generators

Similarly, the MISO Straw Proposal does not resolve the issue for the Brookings line generators. The interim 90/10 cost allocation (approved by FERC in October of 2009) is currently in effect and the Brookings line generators are being asked to sign interconnection agreements under this interim methodology. The MISO Straw Proposal should expressly **exempt the Brookings line generators to from the interim 90/10 cost allocation**. Instead, **the Brookings line should be included as a cost overlay project.**

3. Treatment of Network Upgrades Assigned Under the Interim 90/10 Cost Allocation Method

The MISO Straw Proposal does not account for any network upgrade required for generators to interconnect, or for generators with temporary interconnection agreements. A fact common to this issue and the Brookings line issue is that if these types of transmission lines are not included as cost overlay those lines and associated generation will likely not be built. Studies have shown that harnessing the region's clean, renewable resources will unleash billions of dollars of investment in infrastructure, with correspondingly significant economic development benefits for all the states in the MISO footprint[1] -- but this economic value will be jeopardized if the overlay is not built. The impact is that the region will lose the attendant economic value of the new transmission lines and generating facilities. Such a loss is amplified in this time of high unemployment and slow economic growth.

WOW urges CARP Representatives to request that MISO modify its Straw Proposal such that the effective date is the day after the July 15th filing date. Such a change would allocate costs for transmission lines that have not been included in signed interconnection agreements prior to the July 15th filing date.

Another grouping of network upgrades overlooked by the MISO Straw Proposal are those assigned to Group 5 generators or to later groups. **WOW, therefore, also suggests that CARP**

[1] While the exact economic benefits vary by state, an analysis of the economic impacts of wind energy facilities installed in Illinois gives an indication of the scale of potential economic losses. Illinois State University looked at the economic benefit from the initial 1,118.76 MW of wind power developed in Illinois. The University found that it created approximately 6,019 full-time equivalent jobs during construction periods with a total payroll of over $306 million, and is supporting approximately 292 permanent jobs in rural areas with a total annual payroll of over $15 million. These 292 jobs make a significant impact because the wind farms are located in rural areas, where populations are much smaller. This wind power development supports local economies by generating over $11.4 million in annual property taxes within the state. Landowners also receive lease payments for use of their land that total approximately $4.36 million annually. Over the life of the project, it is estimated this amount of wind power development will generate a total economic benefit of $1.9 billion for Illinois. *Economic Impact: Wind Energy Development in Illinois*, Center for Renewable Energy at Illinois State University at 20-21 (June 2009).

Representatives request that the Midwest ISO include in their filing a "transition solution" that would require a review of any network upgrade that has been assigned to any generator in Group 5, or later, during the time that the interim 90/10 cost allocation methodology was in effect, and provide that the costs of those upgrades could be allocated based on the new methodology.

B. Local Access Charges

WOW concern about Local Access Charges remains, for several reasons which are explained below. **For these reasons, we prefer the framework contained in the TO Proposal for dealing with local charges, which removes the local and sub-regional layers in favor of a single regional layer that reflects the regional nature of these kinds of transmission investments**.

Specifically, our concerns regarding Local Access Charges include the following:

1. If There is to be a Local Charge to Generators, it Should be Based on Net Capacity Factor

WOW appreciates that the Midwest ISO is planning to develop a rate for generators at the local level that is based on something less than the peak generating capacity. However, **WOW recommends that CARP Representatives request that the Midwest ISO base this rate or charge on the historic net capacity factor of a generator.**

The net capacity factor of a generator is a reasonable proxy for a generator's usage of -- and therefore benefit from -- the transmission system. Net capacity factor should be defined as the net annual energy production from a generator, divided by the total potential energy production from that same generator had it been operating at peak capacity for all hours of the year. The generator would then be charged on the number of MW of generating capacity that result from multiplying the net capacity factor by the peak generating capacity. A rate based on a generator's net capacity factor is more comparable to charging load on a 12-CP basis. To do otherwise would suggest that load should be charged on a 1-CP basis.

2. Potential Unintended Consequences of "Higher-Of" Pricing

WOW has concerns regarding the use of "Higher-Of" pricing, because our modeling indicates that it will result in unintended, material, and negative consequences for generators. When applied to a small pricing zone, or in a situation where minimal network upgrades are needed to interconnect a project, the use of "Higher-Of" pricing will result in much higher costs to generators than they would pay if the full cost of the upgrade were directly assigned to the generator. As a result, in some situations "Higher-Of" will result in charges that are completely disproportionate and inequitable.

3. Impact on Existing Power Purchase Agreements

WOW shares the concern voiced by the IPP/PM Sector that the introduction of new charges at the local level could be highly disruptive to existing power purchase agreements (and may well prove infeasible from a legal perspective).

II. Comments on the Midwest ISO Transmission Owners' April 9, 2010 Cost Allocation Framework

WOW appreciates the work the Midwest ISO Transmission Owners ("TOs") have done to develop a proposal for a framework for cost allocation for transmission lines that meet the needs of state policy requirements. We welcome several aspects of this proposal, including the removal of the local and sub-regional layers in favor of a single regional layer that reflects the regional nature of these kinds of transmission investments, and the removal of charges to generators on this regional layer.

As stated in our March 22nd comments, an export rate will appropriately allocate costs to loads outside the Midwest ISO that benefit from new transmission capacity created by the UPPs.

However, we wish to highlight the following points regarding export rates:

- It is critical that the rates be set at the appropriate level.
- The proposed level of export charges has not been specified in the TO Proposal (or in the MISO Straw Proposal).
- WOW encourages consideration of the charges exports already pay when setting the export rate.
  - Exports currently pay a high rate to wheel out from the Midwest ISO in the form of drive-out transmission service requests.
  - An export rate could be a duplicative charge.
- When set properly, the charges to generators for network upgrades should provide an adequate price signal for appropriate siting of new generation.

A. Transition Concerns

WOW also appreciates the TOs inclusion of a form of "transition solution" for transmission lines not currently being evaluated within the MTEP 2010 Planning Process. However, we note that because Unique Purpose Projects ("UPPs") are a newly proposed classification of transmission project that did not exist at the beginning of the MTEP 2010 planning process, transmission projects that would have only qualified for cost sharing as a (UPP) would never have been considered for the MTEP.

We therefore suggest that CARP Representatives request that the TO's proposal be modified to include a third category for UPPs within MTEP 2010 (in addition to reliability and economic benefits).

B. Greater Clarity on Unique Purpose Projects (UPPs)

While the TOs continue to add more detail to what constitutes a UPP, WOW is still unsure which lines would qualify under this category. To ensure development of regional transmission projects that support renewable integration, public policy, reliability and economic goals[2] **WOW suggests**

[2] FERC has acknowledged that "stakeholders may seek to plan for transmission projects on a region-wide basis to address region-wide concerns" -- such as renewable integration, public policy, reliability and economic goals. *See Midwest Indep. Transmission Sys. Operator, Inc. and the Midwest ISO Transmission Owners*, 129 FERC ¶61,060 at ¶58 (2009).

that lines identified through the Midwest ISO Regional Generator Outlet Studies ("RGOS") be categorized as UPPs.

The RGOS process should become a standard part of the Midwest ISO MTEP planning process, so that UPPs are re-evaluated every year to ensure that they are still required to meet a documented policy need, and to ensure that these lines together with other transmission additions in the MTEP are the most cost effective solutions to meet the region's combined reliability, economic, and policy needs.

In addition to improved clarity regarding the definition of UPPs, **WOW suggests that the TO Proposal should contain a range for transmission investment that is reasonable based on an understanding of minimum renewable, reliability, and economic needs over the next several years**. Within this range, the TOs and other stakeholders can prioritize projects through the transmission planning process, based on the overall value those projects bring. Establishing a range of transmission investment has the dual purpose of assuring a minimum floor for growth of transmission and ensuring that the costs to consumers will remain in a range of reasonableness.

III. Ensuring Construction of New Transmission Lines

WOW is concerned that without changes to the Midwest ISO's agreement with the transmission owners, there will be no assurance that transmission additions identified as needed through the MTEP and RGOS processes will actually get built. Currently, projects do not get built (much less cost shared) unless Midwest ISO transmission owners choose to build them.

WOW recommends that both the Midwest ISO and the TO proposals include a timeline for construction of the new infrastructure, or UPPs, that will be identified through the MTEP process and the Midwest ISO must have the authority -- and an obligation to exercise such authority -- to engage third party transmission providers in the event that existing Midwest ISO Transmission Owners do not begin construction within that set timeframe.[3]

In addition, planning criteria need to be developed to determine which transmission projects, or UPPs, will qualify for Appendices A and B of MTEP and when that qualification process will take place. These criteria need to be detailed and wholly separate from a transmission owner's commitment to build those lines. WOW understands that planning criteria are being developed through the Planning Advisory Committee ("PAC"), but it is critical that the criteria the PAC develops be completed prior to the filing of any cost allocation proposal with FERC. The effectiveness of the Midwest ISO Straw Proposal or the TOs Proposal will not be evident without these criteria.

The Brookings line is a perfect example of the kind of overlay transmission line that is needed to support state renewable policy requirements, and that will bring reliability and economic benefits. The Brookings line was originally identified as needed by a set of transmission owners and, very similar to lines included in the Midwest ISO's RGOS process, it has multiple benefits including reliability, economic, and generator interconnection. Yet the benefits of this line fall short of the existing RECB I and RECB II criteria for reliability and economic projects, and different benefits cannot be considered together under current criteria. This demonstrates that certain state policy

[3] The Midwest ISO's backstop authority would not supersede any states' rights to issue certificates of need or to address siting issues. Any third party transmission provider would be required to acquire all necessary regulatory approvals.

agendas may not be met or may be curtailed by the cost sharing qualification criteria MISO currently applies.

WOW recommends that CARP Representatives request the Midwest ISO and the TOs demonstrate how the Brookings line, and lines of this type, will qualify for cost sharing under Injection-Withdrawal or as UPPs, as well as how that will be addressed during the transition period.

Many states have expressed the desire to have a benefit/cost criteria for transmission upgrades that are cost shared. WOW wishes to highlight the following points:

- The RECB II analysis uses numeric benefit/cost criteria to determine which projects may be included in Appendix A of MTEP for cost sharing for economic projects. That absolute benefit/cost hurdle has drastically curtailed the benefits that could have been achieved through that process.
- Since UPP projects are selected based on planning needs and policy goals that require transmission, there is no need for a project to pass an absolute benefit/cost analysis in order to qualify as a UPP.

It is appropriate to use a benefit/cost analysis to rank or compare projects for evaluation purposes. This evaluation process could be based on a variety of criteria, and the benefit/cost analysis would help ensure that the project which presents the best business solution is selected when multiple alternatives are being considered or there is a need to prioritize projects. **It is critical, however, that such an analysis not contain specific benefit/cost hurdles – no project should be at risk of exclusion for failure to meet a minimum benefit/cost ratio.**

Thus, WOW urges CARP Representatives to avoid establishing specific benefit/cost criteria for transmission needed for a renewable resource or for use as inclusion criteria. Rather, the criteria for including UPP projects in Appendix A could include a benefits/costs analysis in selecting between alternative transmission solutions to meet renewable resource needs or prioritizing which projects to build.

WOW welcomes any questions from CARP Representatives as well as further discussion of any of the points raised in these comments.

Sincerely,

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