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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission
System Operator, Inc.

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Docket Nos. ER06-18-004
ER06-18-005

COMMENTS
OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

Pursuant to the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rule 211 Rules of Practice and Procedure 18 C.F.R. 385.211, for the filing of comments, the Public Utilities Commission of Ohio ("PUCO" or "Ohio Commission") hereby submits these comments regarding the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO" or "MISO") proposed revisions to the Midwest ISO's Open Access Transmission and Energy Markets Tariff ("Energy Markets Tariff," "Tariff," or "EMT") filed November 1, 2006. The Midwest ISO states that the purpose of the proposed additions and revisions to the tariff is to incorporate into the tariff the methodology for: (1) establishing criteria for evaluating whether a Regionally Beneficial Project ("RBP") would be expected to generate sufficient regional benefits to justify cost allocation to Transmission Customers in designated sub-regions; (2) establishing procedures for allocating the costs of RBP resulting from the Midwest ISO's Regional Transmission Plan that meet such inclusion criteria to the appropriate parties; and (3) establishing cost allocation procedures for costs resulting from agreements with entities outside the Midwest ISO Region.¹

¹ November 1, 2006 Filing; FERC Docket No. ER06-18-004

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The Commission set November 22, 2006 as the deadline for comments and protests. On November 9, 2006, the Organization of Midwest ISO States (OMS) requested for an extension of the deadline to file comments and protests. On November 17, 2006, the Commission issued a notice to extend the deadline for comments to December 21, 2006.

Statement of Issues

Specifically, the PUCO will comment on the following proposed revisions to Midwest ISO's EMT with regards to the proposed tariff revisions to Attachment FF:

- ***System-wide postage stamp component***

The PUCO is opposed to the postage stamp method of cost recovery recommended by MISO, and, without some sort of benefits test, will continue to oppose it. The PUCO supports a position that reflects that costs should be shared by those who benefit. Ohio is, however, in agreement with the limitation on the postage stamp component to bulk transmission of 345 kV and above.

- ***Sub region- wide component***

The Ohio Commission is not opposed to sub region- wide cost sharing, although we support OMS' proposal to condition approval of the tariff changes on a report by MISO of the appropriateness of the sub-region determinations. Sub-regional cost sharing will likely appropriately recognize beneficiary cost recovery.

- ***OMS Comments***

The Ohio Commission agrees with most of the comments and recommendations filed by the OMS. We disagree with the 20% postage stamp cost sharing of a project's cost on a load ratio share to all pricing zones in the MISO footprint. However, should the Commission decide not to reject the 20% postage stamp allocation, the Ohio Commission would support

OMS' recommendation that Midwest ISO should only apply the 20% postage stamp rate to facilities that are 345 kV and higher and only when such facilities are shown to provide measurable benefits to at least one pricing zone in each of the Planning Sub Regions.

Discussion

The PUCO participated in MISO's Regional Expansion Criteria and Benefits ("RECB2") task force. Members of this task force have continued to work on the criteria and methods for allocating and recovering the cost of RBP in MISO's Transmission Expansion and Planning ("MTEP") report. A RBP is a project(s) that is greater than 345 kV, \$5 million dollars or more, and has not been determined to be a Baseline Reliability Project or new transmission access point. The results of the RECB2 task force efforts are included in MISO's November 1, 2006 filing.

The PUCO also participated in the OMS's Pricing Working Group. This working group was charged with writing comments on the MISO filing. Ohio was active in this group and agrees with a number of the comments and recommendations submitted by OMS. As a member of both groups, the PUCO has advocated the following positions.

System-Wide Postage Stamp Component

The PUCO believes that bulk power transmission projects can provide a benefit to more than just the local pricing zone(s) in which the transmission owner is located and who is assigned the responsibility to build the facility. Therefore, the costs of bulk power transmission projects should be recovered from transmission users that benefit from a project. This is especially true for regionally beneficial projects. PUCO believes this supports the just and reasonable standard followed by the Commission and used by state commissions for retail rate cost recovery determination.

MISO proposes sharing 20% of a bulk power transmission project costs on a region wide basis by all customers within the MISO footprint for projects that are 345 kV and higher and have

total costs exceeding \$5M. The PUCO does not support the postage stamp proposal. The PUCO is a strong advocate for costs being allocated only to those pricing zones who are shown to benefit from a project and that no pricing zone that is not shown to receive benefit from the project should be required to pay for that project. It is the PUCO's position that the cost of each project should be allocated only to those who benefit.

Consumers in Ohio represent approximately 17% of the MISO's footprint load. The proposed postage stamp rate for economic regionally beneficial projects would cause Ohio consumers to bear a disproportionate share of the system-wide postage stamp rate under the proposed load ratio share filing. While the Ohio Commission will support cost recovery from Ohio retail consumers for projects that are shown to benefit them, under the proposed postage stamp rate we do not want Ohio consumers to be paying a disproportionate share of a regionally beneficial project's costs, especially when the project is premised upon the notion that consumers will receive a benefit from the project.

To the extent FERC accepts a postage stamp component, Ohio does support limiting bulk power transmission projects that are 345 kV and above for purposes of MISO system wide rate making. Although it is recognized that the nature of local and regional transmission vary across the MISO region, the PUCO believe that the higher voltage network better define the interstate bulk power transmission system and better supports sharing of bulk power transmission project costs. The PUCO supports using 345 kV as a cut-off between regional and sub-regional projects.

Sub Region-Wide Component

The RECB2 task force agreed to allocate the remaining 80% of the RBP on a sub region-wide basis. MISO came up with three sub regions based upon pricing zones in all three sub-regions; East, Central, and West. Each region has approximately the same amount of load in the MISO footprint. The proposed filing would share the remaining 80% of the RBP costs for projects on a sub

region-wide base. The PUCO supports a cost benefit analysis of all projects that qualify for sub-region wide cost sharing and would propose that all projects be allocated based upon the sub-regional rate formula based upon a demonstration of benefits. PUCO supports the OMS recommendation that MISO be required to re-evaluate and refine its process to determine the appropriateness of sub-regions through the stakeholder process. There is much uncertainty as to whether these three sub-regions are appropriate for cost sharing of regional beneficial projects. PUCO believes dividing the large MISO footprint up into smaller sub-regions comes closer to the Commissions just and reasonable standard by ensuring that an economic beneficial project is paid for by those who benefit.

OMS Comments

Ohio was involved in the OMS Pricing Working Group discussions on commenting on the MISO Tariff filing. OMS has brought up several good points in which Ohio agrees with. Ohio abstained from signing the comments due to we strongly oppose the postage stamp method.

The following is a list of issues taken from the OMS comments of which Ohio agrees with:

Section II: With respect to its planning process:

- The Midwest ISO needs to clearly set out an overall planning objective for the development of a portfolio of projects that provides region-wide benefits.
- The Midwest ISO needs to clearly specify additional measures that it intends to use in meeting this overall planning objective.

Section III.A: With respect to calculating benefits for including a proposed project for cost allocation:

- The Midwest ISO should apply the No Loss provision to pricing zones rather than to Planning Sub Regions.
- The Midwest ISO should apply the No Loss provision to the present value of benefits rather than on a year-to-year basis.

Section III.B: With respect to allocation of projects included for cost allocation:

- The Midwest ISO should only apply the 20% postage stamp rate to facilities that are 345 kV and higher and only when such facilities are shown to provide measurable benefits to at least one pricing zone in each of the Planning Sub Regions.
- The Midwest ISO should allocate costs of a project to the pricing zones for an initial period ending five years from each project's in-service date before aggregating and spreading those costs to Planning Sub Regions.

Section IV: With respect to tariff language concerning project portfolios:

- Midwest ISO should change the tariff language as proposed by the OMS for the purpose of clarity.
- The Midwest ISO should add the OMS' proposed language regarding unreasonable cost allocations.
- The Commission should require the Midwest ISO to provide an annual report on steps taken to develop project portfolios.

Section V: With respect to the determination of appropriate sub regions for cost allocation:

- The Commission's approval of the proposed tariff should be conditioned on the Midwest ISO filing with the Commission a report on the appropriate determination of sub regions for the purpose of allocating the costs of Regionally Beneficial Projects.
- The Midwest ISO should thoroughly explain the possible future implications of using fixed geographic planning sub regions in the way proposed in Attachment FF so that the Commission can assess the justness and reasonableness of that approach.

Section VI: With respect to the inclusion of costs associated with lower voltage facilities:

- The Midwest ISO should change the tariff language as proposed by the OMS to include the costs associated with lower facilities needed to deliver the highest ratio of benefits to costs from higher voltage projects or to better distribute the benefits of higher voltage facilities with the sub regions.
- The Midwest ISO should change the tariff language as proposed by the OMS to exclude costs of these lower voltage facilities from region-wide postage stamp allocation.
- Midwest ISO should provide an explanation of why it has not included in its proposed planning and cross zonal allocations of Regionally Beneficial Projects lower voltage projects that are not needed to deliver or distribute benefits from higher voltage projects.

Section VII: With respect to the allocation of costs of reliability upgrades not located in the Midwest ISO footprint:

- The tariff language proposed by the Midwest ISO regarding the allocation of cross border reliability projects is premature and should be removed from the proposed tariff.

Section VIII: With respect to several clarifications of the Midwest ISO's November 1 filing:

- A. The Midwest ISO should provide an on the record description of the system load-flow model it expects to use and the manner it expects to use it.

- B. With respect to certain measurements of costs and benefits:
1. Attachment FF should specify that the modeling period for calculating benefits should include at least ten years, and the Midwest ISO should specify the present value method it intends to apply over the modeling period.
 2. The Midwest ISO should explain the specific interpolation method that it plans to apply for estimating benefits over the modeling period.
 3. Attachment FF should specify project costs used to calculate the benefit-to-cost ratio as the present value of revenue requirements over the same time period used to calculate benefits.
- C. The Midwest ISO should perform sensitivity analyses on locations and amounts of other transmission and non-transmission additions and retirements to ensure robustness of benefits from candidate RBPs.
- D. The Midwest ISO should engage with its stakeholders to develop and clarify its planning process for RBPs for subsequent inclusion in its tariff.
- E. The Midwest ISO should continue to meet with Midwest ISO stakeholders in an effort to develop additional measures of benefits and set a time for reporting back to the Commission the results of this effort.
- F. The Midwest ISO should clarify and thoroughly explain the concept of “potential Regionally Beneficial Projects”.
- G. As the Midwest ISO and its stakeholders gain experience with Regionally Beneficial Project planning, the appropriateness of the benefit/cost ratio threshold should be reviewed.
- H. The Midwest ISO should thoroughly explain whether or how it intends to evolve into a single planning process its determination of Baseline Reliability Projects and Regionally Beneficial Projects.
- I. The Midwest ISO should clarify potential conflicts in the tariff language regarding Baseline Reliability Projects and Regionally Beneficial Projects.
- J. The Midwest ISO should identify the “Project Reporting Guidelines” and should submit that document on the record of this case with a full explanation.

Section IX: With respect to the Commission’s review of the Midwest ISO filing:

- A. The Midwest ISO’s filing did not result from a formal settlement compromise process, and the Midwest ISO’s mischaracterization of its filing as a “compromise” should not be allowed to influence the Commission’s independent review process in this case.
- B. While the Midwest ISO’s proposal is an improvement over the existing Attachment FF, it is not necessarily just and reasonable as filed. The Commission should direct the Midwest ISO to make the tariff changes and clarifications discussed in these Comments.

As stated above Ohio abstained from recommending the OMS comments due to we believe that only beneficiary should pay and therefore can not support a regional postage stamp. Below is the section of the OMS comments that we disagree with:

Section III.B: With respect to allocation of projects included for cost allocation:

The OMS states that the Midwest ISO should only apply the 20% postage stamp rate to facilities that are 345 kV and higher. PUCO can support regional bulk power of RBPs that are 345 kV and higher, although the Ohio Commission can not support the blanket 20% cost sharing of any project without a benefit test. Ohio believes that costs should be shared by those who benefit especially if the project is intended to benefit of someone.

Conclusion

In conclusion, the PUCO respectfully requests the Commission to consider these comments in its consideration of the proposed filing.

Respectfully submitted,

/s/ Thomas W. McNamee

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On behalf of
The Public Utilities Commission of Ohio

CERTIFICATE OF SERVICE

I hereby certify that the foregoing have been served in accordance with 18 C.F.R. § 385.2010 upon each person designated on the official service list compiled by the Secretary in this proceeding.

/s/ Thomas W. McNamee

Thomas W. McNamee

Assistant Attorney General

Dated at Columbus, Ohio this December 20, 2006.