

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**Midwest Stand-Alone Transmission Companies ) Docket No. ER07-1261-000  
And Wolverine Power Supply Cooperative, Inc.**

**Midwest Independent Transmission System ) Docket No. ER98-1438-000  
Operator, Inc.**

**NOTICE OF INTERVENTION  
AND COMMENTS OF  
THE MICHIGAN PUBLIC SERVICE COMMISSION**

Pursuant to Rule 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. § 385.214 (2006) and the August 16, 2007 Combined Notice of Filing and the Errata Notice Extending Comment Period issued August 17, 2007, issued by the Commission, the Michigan Public Service Commission (“MPSC”) hereby submits its notice of intervention and comments.<sup>1</sup> The MPSC states as follows:

**I. DESCRIPTION OF THE FILING**

On August 1, 2007, the Midwest Stand-Alone Transmission Companies and Wolverine Power Supply Cooperative, Inc. (collectively, “Petitioners”) filed proposed revisions to the Open Access Transmission Energy Markets Tariff (“TEMT”) of the Midwest Independent Transmission System Operator, Inc. (“Midwest ISO”). The Petitioners request that the Commission accept proposed revisions to the existing cost allocation methodology developed by the Regional Expansion Criteria and Benefits (RECB) Task Force that would implement a superseding rate design effective February 1, 2008. Specifically, Petitioners propose the

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<sup>1</sup> The MPSC, as a member of the Organization of MISO States, Inc. (OMS), has joined in the Comments of the Organization of MISO States, Inc. filed in Docket No. ER07-1233-000, *et al.* OMS opposes the proposal by Petitioners in Docket No. ER07-1261 relating to the allocation of costs of new transmission facilities and supports the allocation of transmission costs developed by the RECB Task Force. The purpose of this filing by the MPSC is to highlight those areas between the RECB methodology and Petitioners' proposal that may be revisited.

following changes: 1) allocate 100% of the costs of certain new transmission projects with voltages rated at 345 kV and above on a systemwide “postage stamp” basis (rather than a 20% allocation on a postage stamp basis); and 2) modify the criteria used to identify extra high voltage (“EHV”) transmission projects that are eligible for regional cost sharing under the 100% postage stamp allocation. Filing at p. 4. According to the Petitioners these changes are limited in their application to new transmission facilities. *Id.*

## II. NOTICE OF INTERVENTION

The MPSC is an agency of the State of Michigan, created by 1939 Pub. Acts 3, Mich. Comp. Laws Ann. § 460.1 *et seq.* As the Michigan regulatory agency having jurisdiction and authority to control and regulate rates, charges, and conditions of service for the retail sale of electricity in the State, the MPSC is a “state commission” as defined in 16 U.S.C. § 796(15) and 18 C.F.R. § 1.101(k) (2006). Accordingly, the MPSC hereby provides its notice of intervention pursuant to 18 C.F.R. § 385.214(a) (2) (2006).

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### **III. COMMENTS**

As a starting point, the MPSC emphasizes its support for the RECB methodology for allocating the costs of existing transmission facilities under the "license plate" rate design. In this respect, the MPSC notes that Petitioners also propose to retain license plate rates for existing transmission facilities. Given the broad support for retaining license plate rates for existing facilities, MPSC urges the Commission to retain such rate design in whatever comprehensive cost allocation methodology ultimately emerges from this proceeding. In this respect, the MPSC's comments herein are focused upon the appropriate allocation factors for the costs of new transmission facilities.

#### **A. Existing RECB Cost Allocation Methodology**

Currently, the costs of new transmission facilities are allocated pursuant to a method developed by the RECB Task Force. Filing at 19. The RECB methodology allocates costs differently depending on whether the projects are included in Midwest ISO Transmission Expansion Plan ("MTEP") for reliability reasons ("Baseline Reliability Projects") or economic reasons ("Regionally Beneficial Projects"). Filing at 20. The RECB methodology is as follows: First, a bright-line voltage test is applied to both types of projects. To qualify for regional cost sharing under the RECB postage stamp rate (20%) both Baseline Reliability Projects and Regionally Beneficial Projects must include facilities 345kV and above. Filing at 20. According to the filing, this "bright-line" cut off is intended to be an administratively feasible approach to identifying facilities that are likely to provide sufficient regional benefits to justify regional cost sharing, and to avoid the need for case-by-case litigation. Filing at 20. Second, 20% of the costs associated with Baseline Reliability Projects rated 345kV and above are allocated regionally through the use of a postage stamp rate. The remaining 80% are

allocated sub-regionally among individual pricing zones based on the Midwest ISO's analysis of Line Outage Distribution Factors ("LODF"). Filing at 20.

Third, Regionally Beneficial Projects are subjected to a "weighted gain/no loss" ("WGNL") formula test before costs are regionally allocated. Filing at 20. The WGNL test quantifies two types of economic benefits: production cost savings and reductions in locational marginal prices ("LMP") at load. Filing at 20. The former is afforded a 70% weighting and the latter a 30% weighting. Filing at 21. The economic benefits are then compared to the costs of the proposed projects to determine a benefit-to-cost ratio. Filing at 21. The benefit-to-cost ratio for a project must exceed predetermined thresholds to qualify for regional cost sharing. Filing at 21.

If a Regionally Beneficial Project meets the applicable benefit-to-cost ratio, then 20% of project costs are allocated regionally under postage stamp rates, similar to the methodology applicable to Baseline Reliability Projects. Filing at 21. Sub-regional cost allocation differs depending on whether it is a Baseline Reliability Project or a Regionally Beneficial Project. Filing at 21.

**B. Petitioners' Proposed Cost Allocation Methodology and Cost Sharing Eligibility Criteria for Projects Rated Above 500 kV**

In the instant filing, Petitioners propose to increase the percentage of costs allocated under the current RECB postage stamp methodology from 20% to 100%. Filing at 48. The 100% postage stamp allocation method will apply to all new projects that are eligible for regional cost sharing under the existing RECB methodology: Baseline Reliability Projects and Regionally Beneficial Projects rated 345 kV and above. Filing at 48. Petitioners state that the proposal "will enable the regional costs and regional benefits of proposed transmission projects to be evaluated on a level playing field" and will "better align cost allocation with the dispersion

of benefits associated with EHV transmission infrastructure and promote consistency with PJM's cost allocation methodology." Filing at 4. Petitioners also propose, in this instant filing, to eliminate the second prong of a two-part eligibility test in the existing RECB, applicable to projects rated at 500 kV and above.<sup>2</sup> Under their proposal, 100% of the costs of new facilities rated at 500 kV and above projects will be eligible for regional cost sharing by merely satisfying the criteria under Appendix B of the Transmission Owners Agreement. Filing at 59. According to Petitioners, "eliminating the RECB criteria for projects rated 500 kV and above will ensure that the benefits of such projects are accurately characterized and evaluated using the criteria set forth in Appendix B..." Filing at 62.

### **C. The MPSC Position**

The MPSC believes that the 20% systemwide postage stamp could be revisited for transmission projects  $\geq 345$  kV. However, there is insufficient support for the underlying assumption that there are always regional benefits commensurate with the allocated of 100% of the cost on a postage-stamp basis. The MPSC recognizes that cost allocation and rate design are not exact sciences. In making this suggestion, the MPSC is not recommending the elimination of the RECB eligibility criteria set forth in Attachment FF of the Midwest ISO's Open Access Transmission and Energy Markets Tariff for new transmission projects that are 500kV and above. The MPSC also recognizes that the allocation of costs based on production costs and line outage distribution factors are not perfect solutions; however, these existing allocation factors more closely match costs with benefits than the factors proposed by Petitioners.

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<sup>2</sup> As indicated, *supra*, under the existing RECB methodology transmission projects must meet two sets of criteria to qualify for regional cost sharing. First, projects must be deemed eligible for inclusion in the Midwest ISO's MTEP based on an analysis of the criteria set forth in Appendix B of the Transmission Owners Agreement. Filing at 58. Second, transmission projects that are deemed eligible for inclusion in the MTEP must then meet the RECB eligibility criteria set forth in Attachment FF to qualify for regional cost sharing. Filing at 58.

The Benefits/Costs Ratio may be difficult for larger projects to meet due to the sharp increase in the sliding scale threshold for projects that take more time to construct. The threshold was put in place as a safeguard to protect customers from the additional risks associated with larger and lengthier projects. MPSC does not support reverting to only the Appendix B criteria. Rather, the RECB methodology for new transmission projects that are 500kV and above should be reviewed and an appropriate replacement should be considered. Appendix B only “describes the process to be used by the Midwest ISO in planning the Transmission System” and is not meant to be a cost/benefit review. Appendix B requires the Midwest ISO plan to be tested for adequacy and security based on “all applicable criteria” and to adhere to “applicable reliability requirements of NERC, regional reliability councils, or successor organizations, [Transmission] Owners’ planning criteria filed with federal, state, or local regulatory authorities, and applicable federal, state and local system planning and operating reliability criteria.” Other than these reliability criteria, however, there are no explicit standards or criteria for the Midwest ISO to approve projects. Certainly, no cost-benefit test or metric is included in Appendix B.

Moreover, Appendix B grants considerable discretion and power to the transmission owners and the Midwest ISO. The Midwest ISO is required to approve any transmission owner plans that “call for modifications to the Transmission System which would significantly affect ATC” before such plans are implemented.<sup>3</sup> However, Appendix B contains no standards for approval and the Midwest ISO planning staff has indicated on several occasions that such a review can be limited to ensuring that a project does not harm neighboring areas from a reliability standpoint. Thus, the minimal threshold for review and approval does not involve cost

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<sup>3</sup> Sheet No. 114.

and benefit metrics, let alone any quantifiable standards to be achieved. And despite the collaborative planning process for the development of the MTEP, Appendix B requires the Midwest ISO to “develop a streamlined approval process for reviewing and approving projects proposed by the Owners so that decisions will be provided to the Owner within thirty (30) days of the projects submittal to the Midwest ISO unless a longer review period is mutually agreed upon.” These comments should not be construed as a collateral attack on Appendix B. The MPSC is merely seeking to demonstrate that it is inappropriate to replace the RECB criteria with Appendix B for purposes of reviewing and approving EHV projects to be cost shared across the Midwest ISO, especially given the cost and significance of such projects.

The Petitioners rely on the FERC’s approval of PJM’s 100% postage stamp treatment for projects with voltages of 500kV and above as justification for their proposal in the Midwest ISO. However, Section 6 of PJM’s Operating Agreement has several provisions that provide for a more rigorous review of economic projects than the Midwest ISO’s Appendix B.<sup>4</sup> Although the PJM Operating Agreement still gives ultimate discretion to PJM to determine whether to approve

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<sup>4</sup> PJM Operating Agreement, Schedule 6 (Regional Transmission Expansion Planning Protocol). *See, e.g.*, subsection 1.5.6 (Development of Regional Transmission Expansion Plan) providing that “recommended plan shall identify enhancements and expansions that relieve transmission constraints and which, in the judgment of the Office of the Interconnection, are **economically justified**. Such economic expansions and enhancements shall be developed in accordance with the procedures, criteria and analyses described in Section 1.5.7 below” (emphasis added). *See also* subsection 1.5.7 (Development of Economic Transmission Enhancements and Expansions) providing that following PJM Board approval of assumptions, PJM

shall perform a **market efficiency analysis to compare the costs and benefits** of (i) accelerating reliability-based enhancements or expansions already included in the Regional Transmission Plan that if accelerated also could relieve one or more economic constraints . . . and (iii) new enhancements or expansions that could relieve one or more economic constraints, but for which no reliability-based need has been identified.” Any market participant may also propose to construct an additional economic based expansion and such expansion would be reviewed as part of market efficiency analysis. (emphasis added)

To determine the economic benefits, PJM must perform and compare market simulations with and without the proposed expansions and determine whether they include the expansion in the Regional Transmission Expansion Plan (RTEP) “based on its consideration of the totality of factors” identified in 1.5.7(e) (i.e., total production costs, total load payments, total generator revenue, zonal load payments, zonal financial transmission rights credits, total transmission system losses and total capacity payments).

a project or plan, PJM is at least required to justify its decision based on cost-benefit analyses using multiple, specific metrics that are detailed in Section 6.<sup>5</sup> Moreover, this justification and the results of PJM's analyses are vetted through the stakeholder process.

Admittedly, the Midwest ISO is working with stakeholders to develop a broader set of metrics to evaluate transmission projects that go beyond the relatively narrow RECB criteria. While this may be useful, neither the metrics nor any accompanying standards or criteria (except RECB) are in Appendix B or the Midwest ISO's tariff.

Therefore, while a higher postage stamp allocation might be acceptable to the MPSC if adequately supported, such a change would have to be accompanied by reasonable criteria to evaluate the costs and benefits and not merely defer to Appendix B. The current RECB process and the criteria have not yet been applied to any regionally beneficial projects. Thus, before the Commission makes any major change to the existing RECB factors, including the 20% allocation to postage stamp rates, it may be appropriate to allow the RECB stakeholder process to play out. However, the Commission may want to consider the revisiting the issue sooner than later. The MPSC is open to considering new proposals that would evaluate the cost and benefits of EHV projects for the purpose of determining the appropriate amount of cost sharing.

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Also, to assure that new economic-based expansions in RTEP continue to be beneficial, PJM must annually review costs and benefits and recommend to the PJM Board whether the expansion continues to provide "measurable benefits" and should remain in the plan. *See* subsection 1.5.7(f).

<sup>5</sup> Subsection 1.5.7 of the PJM Operating Agreement.

#### **IV. CONCLUSION**

As set forth more fully above, the MPSC hereby provides its notice of intervention in this proceeding and comments for Commission consideration.

Respectfully submitted,

#### **THE MICHIGAN PUBLIC SERVICE COMMISSION**

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Dated: September 17, 2007

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served, via electronic mail or first class mail, the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 17<sup>th</sup> day of September, 2007.

/s/ Denyse Zosa  
M. Denyse Zosa