Wind on the Wires' Comments on the Midwest ISO's Proposed Modifications to the Standards for Qualifying For Cost Sharing as a Market Efficiency Project

Wind on the Wires supports the Midwest ISO's decision to make changes to the standards for qualifying as a Market Efficiency Project, however, it takes exception to a couple of the Midwest ISO's proposals. As explained in more detail below, Wind on the Wires supports the benefits metrics proposed by Midwest ISO, it recommends that the Midwest ISO change the benefit/cost threshold and timeframe for analyzing the benefits and costs, and it provides comment on the proposal of a minority of stakeholders that projects be revisited after they have been approved.

Benefits Metrics

The Midwest ISO is proposing that the benefits be evaluated as 100% of adjusted production costs savings (APC) instead of using a combination of adjusted production costs savings and load cost savings. APC is a reasonable proxy for future benefits because it reasonably measures the costs that flow through to utility customers in the Midwest ISO footprint and the greatest percentage of utilities in the Midwest ISO are in regulated states whose future benefits are best modeled by APC.

Ratepayers in the Midwest ISO footprint pay for the actual cost of power produced. The power produced in the Midwest ISO comes from generators selected by the Midwest ISO. The Midwest ISO selects the units based on an economic dispatch -- calling upon the lowest cost generators first. Thus, if the Midwest ISO market can supply power at a cost lower than a utility's dedicated or contracted units, the customer's of that utility receive the benefit of that lower cost power. On the other hand, when the power produced from a utility's dedicated or contracted units are economically dispatched by the Midwest ISO

and the power produced is greater than the demand of the utility's customers', the excess energy is sold into the market and the customers are in effect credited with profit from the sale of that power into the wholesale market. The APC analysis captures these costs and revenues using predicted future scenarios. The APC, generally stated, is the total variable cost of producing electricity from resources within the control of a utility, plus the cost of additional economic purchased power required to serve customers, less the revenue from the sale of power (from the generating units the utility owns or has under contract) into the wholesale market. Thus, the APC savings is an accurate measure of the cost of energy that a utility passes through rates to its customers and is a reasonable approximation of benefits for purposes of evaluating whether a project will provide positive economic value.

Benefit/Cost Threshold

The Midwest ISO is proposing a B/C ratio of 1.25. Wind on the Wires does not support a B/C ratio any higher than 1.25 and recommends that a B/C ratio less than 1.25 be used. The purpose of a Market Efficiency Project is to build transmission lines that provide economic value to a part of the Midwest ISO system. In previous RECB meetings stakeholders identified a few variables affecting the B/C ratio, the most prominent being an increase in construction cost[1]. A B/C ratio over 1.0, in effect, allows for changes in construction costs; changes to labor and material costs, estimate errors and so on, while still ensuring that the benefits outweigh the costs. We urge a B/C ratio in the range of 1.10 to 1.20, which should satisfactorily account for such changes in costs but still ensure that the project is benefiting Midwest ISO customers.

[1] We also note that cost increases often are a result of delays in construction of new transmission lines for various reasons including that such B/C ratios are hard to meet. The longer we wait to build needed transmission lines, the more they cost customers, and the longer customers must wait to begin receiving the benefits of new lines.

WOW also believes that including a B/C ration higher than 1.25 at this time is not prudent given that the recent FERC Notice of Proposed Rulemaking on Cost Allocation and Transmission Planning has indicated FERC's preference for a ceiling on the B/C requirement at 1.25. We have not heard any arguments in the RECB stakeholder process that we believe would convince FERC to allow a deviation on this point for the Midwest ISO.

Timeframe for Calculating Benefit/Cost Ratio

The Midwest ISO is proposing to use a twenty year period for evaluating a projects benefit/cost ratio. It is commonly accepted that the evaluation period for benefits should be the expected life of the new facility. A transmission line's design life is fifty years[2] and typically they are in service longer than that. Thus, Wind on the Wires recommends that the B/C ratio be evaluated over a fifty-year period, or at least thirty years, instead of the proposed twenty years in order to result in a more realistic estimate of the reasonably expected benefits of these facilities.

Revisiting An Approval of a Market Efficiency Project

Some stakeholders have raised the idea that a project's approval should be revisited if circumstances change. The two primary circumstances identified by stakeholders are a change in state policy and cost over-runs that make a B/C ratio less than 1.0. To address the first point, a state policy is in place until overturned, revoked or changed by the state. The Midwest ISO should move forward with its planning relying upon current state policy until it is officially changed. To not rely upon formal state policies or decisions until formally changed creates a slippery slope and too much uncertainly for businesses to move forward with new projects both transmission and generation. It creates doubt in people's minds as to what criteria the Midwest ISO is using and will use

[2] Lawrence Berkeley National Laboratory, Final Project Report – Transmission Benefit Quantification, Cost Allocation and Cost Recovery. p. 19 (June 2008): recommending that a high voltage transmission lines' economic life be studied over a 50 year period.

in approving projects. Such doubt is known to affect lending; it may paralyze development and will push stakeholders to consider ISOs/RTOs that provide certainty.

In the event a state policy is changed, projects affected by that change should not automatically be revisited or reevaluated. There is a point at which a transmission project is so far through the process that the transmission owner is committed to building the project, as they have obtained financing and begun construction. At that point a transmission owner has incurred such substantial cost, that the project should not be revisited or reevaluated. We defer to the Transmission Owner's to help provide guidance on what that point should be.

The second circumstance is similar to the first, in that the government has the responsibility to regulate transmission development. A state utility commission has to approve siting of a transmission line and either the state or FERC approve transmission rates, depending on jurisdiction. If there is a cost over-run it should be the state's or FERC's responsibility to determine the justness and reasonableness of costs and to determine the appropriate balance of risk between the ratepayer and the utility. Therefore, in a cost over-run situation the Midwest ISO should not assume the role of the state or FERC; the Midwest ISO should defer to the state or FERC to determine if costs are still reasonable. If the government agency with jurisdiction over setting rates for the transmission line determines that a project is no longer reasonable then the appropriate process can be initiated to reevaluate the project.

Conclusion

Thank you for the opportunity to comment on the Midwest ISO's proposed changes to the standards for market efficiency projects. As discussion continues, positions develop and new information is presented our position may change, however, at this time we support the use of 100% of the benefits being

calculated using the adjusted productions cost savings method, we recommend a B/C ratio in the range of 1.1 to 1.2, and we recommend that benefits and costs be evaluated over a period of fifty, or in the alternative, thirty years.

If you have any questions, feel free to contact us.

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