



Federal Energy Regulatory Commission
March 15, 2007
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

Items E-2 and E-3: Midwest Independent Transmission System Operator, Inc. (Docket Nos. ER06-18-004, ER06-18-005, and ER06-18-006)

"Today, we approve important orders clarifying the cost allocation for both reliability and economic transmission projects in the Midwest ISO region. This action is significant, and removes an obstacle to increased transmission investment in the Midwest.

There are various challenges to development of a robust transmission grid, including siting, pricing, planning, and cost allocation. The Commission is acting on all fronts. Last Fall, we issued a final transmission siting rule and a final transmission pricing incentives rule. Last month, our Open Access Transmission Tariff reform rule made significant changes to transmission planning, and should strengthen regional planning throughout the country.

But cost allocation may be the most difficult challenge. Failure to resolve cost allocation issues will retard badly needed transmission investment, regardless of our success addressing siting, pricing, and planning.

Cost allocation is a straightforward matter for projects built entirely within one utility's footprint that benefit the transmission owner's native load customers. It is more difficult when the project strengthens a regional grid, and where benefits are more diffused. The Commission has steadily made progress addressing difficult cost allocation issues in the organized markets.

There are two basic approaches towards cost allocation. One is to determine cost allocation on a project by project basis. That can lead to administrative litigation of each and every proposed project. Under this approach, investments will not be made until there is a final cost allocation determination. Depending on the final determination, investments may never be made.

The other approach is to establish a general rule that allocates costs in a manner that closely approximates usage and benefits of a class of transmission projects. A general rule provides regulatory certainty necessary to speed investments. These orders establish a general rule for the Midwest ISO. Under this rule, 20 percent of the costs of both economic and reliability projects will be recovered on a postage stamp basis through all Midwest ISO transmission customers, while 80 percent of costs are recovered through license plate rates in the three subregions.

The Commission has demonstrated regional flexibility in its approach to transmission cost allocation. With our action today, we have approved three different approaches towards cost allocation in three different regions, namely New England, the Southwest Power Pool, and the Midwest ISO.

We have approved different approaches for a number of reasons. The U.S. does not have a national power grid. We have regional grids, and we recognize that there are significant differences in the physical nature and use of these regional grids. Regional flexibility is consistent with that recognition.

Regional flexibility is also consistent with the legal standard by which we review cost allocation proposals. Under the Federal Power Act, we are required to approve a

Federal Energy Regulatory Commission
March 15, 2007
Chairman Joseph T. Kelliher
Item E-2 & E-3

tariff filing if we determine it to be just and reasonable. There may be other approaches that are also just and reasonable, but we cannot substitute a preferred approach if the applicant's approach is just and reasonable. We accept the possibility that there is more than one just and reasonable way to allocate costs.

I want to emphasize that for a cost allocation proposal to be deemed just and reasonable, it must be supported by the record. We find the cost allocation approach proposed by Midwest ISO to be supported by the record. Specifically, the two subregions that account for 84 percent of the Midwest ISO load rely on external transmission facilities for 20 percent of their usage. To the extent usage changes over time, that may warrant further review of the postage stamp allocation.

Since a cost allocation scheme must be supported by the record, there are not an infinite number of allocation proposals that could be considered just and reasonable. The record may support more than one approach, but the number would be limited by what can be supported by the record.

The general rule proposed by Midwest ISO and approved by the Commission fairly allocates the cost of new transmission projects in a manner that closely approximates projected usage and benefits. The only way to more closely approximate usage and benefits would be to evaluate each proposed project, and determine cost allocation project by project.

That approach might result in a more perfect determination of usage and benefits, but at great cost. The cost would be major delays in future transmission investment caused by the lack of a general rule providing regulatory certainty. In balance, it is better to establish that general rule and start strengthening the grid sooner rather than later.

My hope is that today's orders will clear the way for major investments in the Midwest ISO transmission grid."