



Federal Energy Regulatory Commission
March 15, 2007
Open Commission Meeting
Statement of
Commissioner Suedeen G. Kelly

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

"Last year we received Midwest ISO's filing of the 80-20 proposal for cost allocation of reliability projects.

We set it for a tech conference to explore issues associated with the proposal to only socialize 20 percent of the cost of new transmission facilities across the entire Midwest ISO footprint.

I will admit that my personal feeling, based primarily on the fact that transmission facilities are the medium that permits adequate competition in generation, was that a higher level of socialization was probably desirable because of the public interest in healthy competition in generation.

In other words, it is better to spend a little more on transmission if it will spawn larger savings in generation.

However, the tech conference and filed comments made clear that we did not have sufficient record support for a higher regional number and it would be counterproductive to try to force one without proper support.

Furthermore, as the order in E-2 ably explains, if the goal is to get sufficient transmission built then there is little point in attempting to force unsupported cost allocation schemes on regional players.

In particular given their pivotal role in siting transmission facilities, we must give due consideration to the cost allocation views of affected state authorities, so long as those views are just and reasonable.

Accordingly, we ultimately accepted Midwest ISO's proposal for reliability projects but we required Midwest ISO to monitor the effects of this proposal and report back to us.

The order in E-3 addresses requests for rehearing of that order and I support it.

Midwest ISO also committed to address the open question of cost allocation for economic upgrades (as opposed to reliability) in a future filing.

The order in E-2 addresses this filing.

Cost allocation for economic upgrades introduces a whole new level of difficulty over and above reliability upgrades, but I believe that the slightly modified proposal accepted in this order addresses these additional concerns appropriately.

Beneficiaries will be identified in a rational manner and those who will experience net benefits from an upgrade, will share appropriately in its cost.

The biggest concern I have had with "beneficiary pays" proposals is usually that the determination of benefits of an upgrade is artificially narrowed to the point where we have a true "free-rider" problem.

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One set of customers who will benefit from an upgrade escaping all cost responsibility while another set of customers will have to pay for the entire project even though they do not receive all of the benefits of it.

However, I believe the approach adopted here will provide an appropriately robust determination of beneficiaries and thus an appropriate allocation of cost; at least as an initial matter.

As the annual reports required by this order are prepared and discussed each year I look forward to seeing what lessons are learned and what, if any, changes are deemed appropriate.

For example, I noted with interest the proposals by some commentors, including OMS, that because today's economic upgrades will likely be needed for reliability at some point in the future, maybe the lower socialization levels applied under this proposal should be limited to some initial period like 5 years and then remaining costs could be spread wider thereafter.

While we did not find enough in the record to adopt that proposal here, it still seems to hold merit.

For example, generators making poor siting decisions that require an economic transmission upgrade would still need to pay proportionally more of the cost of that upgrade than others but if the very existence of this new line leads to more loads or generators locating in the area over time, and the line ultimately becomes beneficial to others or needed for reliability, then maybe it would be appropriate for any remaining undepreciated rate base to be spread more widely in the future.

Which brings me back to my earlier point: society will be best served by building enough transmission to ensure adequate competition in generation.

Appropriate and fair cost allocation for both reliability and economic projects is the best way for us to encourage this outcome.

Accordingly, I am pleased to vote for both E-2 and E-3.

Thank you."