



# FEDERAL ENERGY REGULATORY COMMISSION

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## **FERC Accepts Midwest ISO-PJM Transmission Pricing Plan; Rejects AEP Challenge**

The Federal Energy Regulatory Commission (FERC) has accepted a compliance filing on fixed cost recovery policies for pricing transmission service between the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) and PJM Interconnection, L.L.C. (PJM) and rejected a complaint by American Electric Power Service Corporation (AEP) that challenged those policies.

The Midwest ISO and PJM, two broad multi-state regional transmission organizations (RTOs) that extend from the Atlantic coast to the Upper Midwest, filed an Independent RTO Pricing Design (IRPD) proposal that would continue to use their existing inter-RTO rate design to price transmission service between the RTOs to take effect Feb. 1, 2008. AEP's complaint challenged the justness and reasonableness of the rate design and advocated postage-stamp rate design for all new and existing high-voltage facilities in the combined Midwest ISO/PJM region.

"This order helps ensure regulatory stability on cost recovery rules necessary to encourage large investments in the power grid that will be recovered over time," FERC Chairman Joseph T. Kelliher said. "Existing transmission systems were built to serve native load, so license plate rates are appropriate in assigning those costs. When transmission systems are built to serve a broader market, broader cost assignment is appropriate."

Under the inter-RTO rate design that the RTOs propose to continue using, the cost of existing facilities is recovered from customers within the zone where the facilities are located. The cost of new inter-RTO facilities are divided between the two RTOs pursuant to their Joint Operating Agreement. The rate design for new facilities is important, FERC said, because it provides both incentives for construction and sufficient certainty for developers to obtain financing and build the projects.

FERC noted that it must consider a variety of interrelated factors in determining whether an existing rate design is just and reasonable. In reviewing transmission rate design within and between the two RTOs, FERC sought a reasonable balance among factors ranging from the original basis for constructing the facilities, the effect of the RTOs' planning processes, the nature of the agreements to form the RTOs, the cost impacts of the various rates designs, uses of the transmission system and the need for new infrastructure within RTO regions.

FERC also said that in this case, the vast majority of transmission owners (TOs) in both the Midwest ISO and PJM support continuation of the existing license-plate rate design. In addition, there is virtually no state commission support for AEP's proposal.

In rejecting AEP's complaint, FERC found the company had made many of the same arguments it had rejected in Opinion No. 494, in which FERC found that PJM's existing license plate rate design had not been shown to be unjust and unreasonable. (In a related order, rehearing of that decision was denied.)





In ruling on AEP’s complaint, FERC noted that courts have found that rate design “is less a science than it is an art” and that allocation of cost involves judgment on a number of facts. “Because RTOs are formed as a result of the voluntary agreement of individual TOs to pool their resources, rate designs for RTOs may need to differ from those accepted for individual TOs. The Commission examined the issue of rate design for RTOs in Order No. 2000 and found that, although an underlying purpose of RTOs is to create integrated systems with benefits to all participants, license-plate rate designs may still be necessary,” FERC said.

“We find that the existing inter-RTO rate design provides the appropriate incentives to construct new high-voltage facilities that perform inter-RTO functions (i.e. those built in one RTO that provide benefits to the other RTO),” FERC said. Regional expansion planning and cost-sharing for these cross-border facilities should be included as part of the RTOs’ Joint Operating Agreement, and “there is no basis for us to conclude that the existing process is not just and reasonable.”

Under a license-plate, or zonal, rate design, a customer pays the embedded cost of transmission facilities that are located in the same zone as the customer. A customer does not pay for other transmission facilities outside of the zone, even if the customer engages in transactions that rely on those zones.

Under a beneficiary pays approach, the costs of new facilities are allocated to load based on a computer modeling methodology, not zonal proximity.

Under a postage-stamp rate design, all transmission service customers in a region pay a uniform rate per unit-of-service, based on the aggregated costs of all transmission facilities in the region.