

Regulatory Update

American Transmission Company

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Today's Regulatory Topics include

- Regional Expansion Criteria & Benefits Update (I and II)
- Cross Border (PJM-MISO) II
- “Post Transition Period” Transmission Cost Allocation
- Seams Elimination Cost Assignment
- Generator Interconnection MISO TO Working Group

RECB I (Rehearing Requests)

- **Billing Issues (separate presentation)**
- **The Exclude List (Arrowhead-Weston)**
- **Generator Interconnection 50%
“participant funding” requirement**

RECB II – *Current Proposals*

- RECB II filing delayed until November 1st
- MISO Staff proposal for “inclusion criteria” (dubbed “Mixed Metrics”) incorporate a **Weighted Gain, No Loss (WGNL) approach**:
 - 70% Adjusted Production Cost
 - 30% Load Net LMP
 - It’s a very conservative combination that discourages the development of new transmission projects
 - MISO will use a threshold benefit-cost ratio of 2:1 (less than 2.5-1 or 3-1 recommended by VITOs)

RECB II – *Continued*

- To receive regional cost allocation, Regionally Beneficial Projects (RBPs) must be greater or equal to 100 kV and over \$5 million
- MISO will promote voluntary negotiation among potential beneficiaries for projects that do not qualify for regional cost sharing

RECB II – *Continued*

- **MISO plans to evaluate additional eligible metrics such as:**
 - **Generation Reserve Capacity effects**
 - **Local & Societal Benefits**
 - **Investor Value of Asset Investment**
 - **National Security Value (of a less vulnerable infrastructure)**

Note: MISO has not provided details as to how these metrics will be evaluated

RECB II – *Funding Limitations*

- **MISO will check each year to see if there is “excessive annual capital funding requirement” for any Transmission Customers in designated pricing zones; if so, this will be reported to the Planning Advisory Committee (PAC) and to the Organization of MISO States (OMS).**
- **This is a significant revision from a problematic VITO idea that would impose either a 10% or a 5% per year rate increase cap.**

RECB II – *Cost Allocation Proposal*

- **20% of the Project Costs of the RBP will be allocated on a postage stamp basis to all Transmission Customers throughout the Region on a Load Ratio basis;**
- **80% of the Project Costs will be allocated on a postage stamp basis within a MISO sub-region. The Sub-regions are West, Central and East. MISO's West Sub-region includes MAPP and ATC.**
- **If a Project crosses two sub-regions, the costs will be apportioned accordingly.**

RECB II – *Fine Tuning Proposal*

- **Look-Back Provision:** Within 3 years of implementation, MISO will assess these processes, and make an appropriate FERC filing to incorporate changes to improve RBP administrative protocols, if and as required.

Allocation of Charges From Other Entities

- Pursuant to agreements to be reached with adjacent Transmission Providers, MISO will apportion charges from such other Transmission Providers (e.g. PJM, TVA, SPP) as follows:
 - 20% postage stamp to all MISO loads;
 - 80% of Project Costs allocated *pro rata* to the sub-regions based on Line Outage Distribution Factor (LODF) analysis. Each Sub Region share will then be allocated on a postage stamp basis to all Pricing Zones within the Sub Region.

Cross Border (MISO-PJM)

Discussions on Economic Projects

- **The current filing deadline to propose modifications to the Joint Operating Agreement and each RTO Tariff is December 1, 2006.**
- **There have been no discussions since the extension of time was granted by the Commission. The first such meeting is scheduled for tomorrow morning at MISO.**
- **Pressure is on to delay this FERC submittal in light of RECB II and the PJM rate design case.**

Post Transition Cost Allocation

- **Transmission Owners Agreement, Appendix C(b)1)(d):**

In order to implement and facilitate any rate revisions....the Midwest ISO shall establish procedures to provide for the development and submission of a filing to FERC, which shall be submitted at least six months before the end of the Transition Period.”

This implies a filing deadline of July 31, 2007, to meet a proposed effective date of February 1, 2008 (six years after the commencement of transmission operations)

Post Transition Cost Allocation, cont'd

- **The Midwest ISO Transmission Owners started to discuss very preliminary rate design and cost allocation issues in May.**
- **One current proposal is that RECB and Cross Border protocols will handle future plant additions, and that existing plant be left undisturbed in the license plate design.**

Post Transition Cost Allocation, cont'd

- **Other stakeholders suggest that there should be no distinctions between reliability-driven projects and so-called economic projects**
- **An example of this is a recommendation to have all new plant at 345 kV and above spread to all Transmission Customers via Postage Stamp, while retaining the license plate design for all existing plant and lower voltage plant additions.**

Post Transition Cost Allocation, cont'd

- **If the Commission affirms the postage stamp phase-in rate design ordered by the Administrative Law Judge's Initial Decision in PJM's transmission service case (Docket No. EL05-121), it will be a powerful prompt for stakeholders to consider the same, given the "joint and common market."**

ALJ Issues Initial Decision in SECA

- **ALJ rejected the TO compliance filings as “unjust and unreasonable”**
- **The ALJ stated that “once they ascertained a 2002 and 2003 alleged T&O revenue number then all thinking stopped. Magically this number became the “lost revenues.”” P141**
- **The “shift to shipper” claims were approved**
- **Affiliate transaction revenues are a financial windfall for the transmission Owners.**

ALJ Issues Initial Decision in SECA

- **AEP's "in and out" transactions are not recoverable lost revenues because the revenues lost as the PJM OATT does not charge on sinks. TOs could have modified the PJM OATT but did not.**
- **Despite clear Commission directives to the contrary, the sub-zone concept was rejected. All charges should be socialized across the Combined Region, or in the alternative, PJM and MISO separately**

ALJ Issues Initial Decision in SECA

- **The ALJ ruled no intra-RTO lost revenue recovery is allowable**
- **The transmission owners did not make “known and measurable changes” and disregarded the orders to do so. The ALJ accepted some proposals to do so (Ormet, Hoosier).**
- **The ALJ rejected the use of 2002 data because it is historical. 2002 data does not reflect future trading patterns.**

ALJ on SECA: Hubbing

- **The transmission owners did not follow the Commission's orders. The transmission owners did not fully analyze the data and remove hubbing.**
- **The ALJ accepted the DENA and Allegheny generation-only control areas hubbing adjustments.**

ALJ on SECA: Rate Design (1)

- **The stated rates for MISO and PJM are not supported. The ALJ did not believe the stakeholders wanted stated rates.**
- **There was no explanation why the TOs switched rate designs.**
- **The ALJ adopted Ormet's position that the rate should be based on usage and capture load growth**

ALJ on SECA: Rate Design (2)

- **“The use of the average rate methodology produces absurd results.”**
- **The footprint method (used by AEP) does not follow cost causation.**
- **The OATi tag data was not independently verified for accuracy.**
- **Existing transaction revenues should not be capped at the transmission customer’s SECA obligation.**

ALJ on SECA: Green Mountain

- **Green Mountain should pay & has been properly allocated its SECA obligation**
- **Green Mountain is an LSE & can be charged under Schedule 22 even if it is not a transmission customer or Market Participant.**
- **BP Energy is not liable for Green Mountain's obligation**

ALJ: Summary Dispositions

- **The ALJ re-affirmed summary dispositions for CMS ERM and Green Mountain**
- **MMPA's summary disposition was denied in general but accepted to the extent that MPPA had contracts that did not extend into the transition period.**
- **ODEC was granted summary disposition for contracts that did not extend into the transition period.**
- **Ormet was granted summary disposition for contracts that did not extend into the transition period.**

SECA Initial Decision: *What Now?*

- Briefs on Exceptions are due September 11th
- Numerous approved settlements make it difficult to assess how extensive is the Initial Decision's practical effect
- Initial Decision may have spurred more settlements
- Settlement looks preferable to re-litigation of subsequent compliance filings

MISO TOs Tackle Gen-Tran Issues

- **The Midwest ISO Transmission Owners have found common ground in problematical MISO filings of Generation-Transmission Interconnection Agreements.**
- **To provide a united front in dealing with MISO, a TO task force has been formed.**
- **ATC's Dan Sanford was elected Chairman.**
- **Three meetings or conference calls to date. Several common issues have been identified.**
- **MISO Senior staff has agreed to include this group in pre-filing review of changes to the *pro forma* G-T Interconnection Agreement.**