

## MEMORANDUM

**To:** Dale Burmester, ATC

**From:** Marty Dreischmeier, WPPI

**Date:** September 24, 2004

**Re:** WPPI's Comments on Access Initiative

WPPI would like to commend ATC's efforts in the Access Initiative. ATC has done a tremendous amount of work analyzing the potential options for increasing the transmission access for Wisconsin and presented the results to stakeholders in a very organized and comprehensive manner.

Based on the results of the Access Initiative analysis to date, WPPI believes that the two most feasible options remaining in the study are either to pursue building the 345 kV line from Byron to N. Madison or to pursue building a 345 kV from Salem to N. Madison. The Prairie Island to Columbia option may be feasible if entities outside of ATC help foot the bill. The base case plus two fixes alternative is clearly not a viable long-term solution for the state of Wisconsin for the reasons discussed below. ATC should use the remaining study time of the Access Initiative fine-tuning its analysis to determine which of the two leading 345 kV alternatives would provide the largest benefit (both economic and reliability) to Wisconsin consumers and have the highest probability of being successfully built.

WPPI has already submitted extensive comments to ATC as part of the Access Initiative stressing the critical importance of substantially increasing the transfer capability into eastern Wisconsin. (Please, refer to the email from Marty Dreischmeier to Dale Burmester sent on July 27, 2004 – copy attached.) The following comments focus on more specific comments regarding the Decision Matrix developed as part of the Access Initiative and distributed on September 14, 2004.

First, WPPI believes the Decision Matrix distributed on September 14, 2004 is a vast improvement over previous drafts. In particular, separating out the Economic Comparison from the Comparison of Other Factors greatly improves the Decision Matrix.

### Economic Comparison

WPPI believes that the market savings shown in the Decision Matrix significantly understate the economic savings that would be achieved from the addition of either the Byron to N. Madison or the Salem to N. Madison lines. The economic savings shown in the Decision Matrix were developed by ATC using the PROMOD model. One of the key assumptions of the analysis performed by ATC, is that all generators are bidding their marginal costs of production. While this may be consistent with economic theory in a perfectly competitive market, the wholesale electric market in eastern Wisconsin is far

from perfectly competitive. Bidding strategies will be in place to maximize the profits of the generators. The level of transmission congestion will clearly play into these bids. Without increased transfer capability, generators will be able to successfully bid higher into the market than would be the case if additional transfer capabilities relieved congestion. Thus, increased transfer capability will have a significant economic benefit by increasing the competitive pressures on the bids of the generators in Wisconsin. The economic benefits that would be achieved from increased competition in Wisconsin's wholesale market are not factored into the analysis and not included in the Economic Comparison in the Decision Matrix. At a minimum, it should be recognized that the estimated economic savings from the PROMOD analysis are very conservative due to the assumption of marginal cost based bids.

#### Comparison of Other Factors

While WPPI does not have any specific comments about the items included in the Decision Matrix or their weightings, we would like to point out a number of other benefits that would be associated with significantly increasing the transfer capability into Wisconsin.

- It should be re-iterated that Wisconsin has the most congested transmission system in the Midwest with the fewest interconnections to other states in the region. This creates significant risks to the consumers in Wisconsin from both an economic and reliability perspective. Applying short-term low-voltage band-aid fixes such as the base case + two fixes, will not adequately address the long term economic risks that Wisconsin faces from being the most congested and least interconnected state in the region. The only way to address this issue is by building 345 kV lines to other states.
- There is a significant hedge value to having additional high voltage transmission lines built connecting Wisconsin to other states. By providing increased access to other capacity and energy sources, the additional high voltage transmission lines will provide a hedge against LMP pricing impacts. In addition, access to the larger regional energy market hedges Wisconsin consumers by providing access to a more diversified generating fleet, fuel sources and market participants. All of which combine to provide a hedge against unanticipated power market developments in Wisconsin.
- Increased transfer capability will provide access to additional potential wholesale suppliers and make the wholesale market significantly more competitive within Wisconsin. This is vitally important, particularly to smaller utilities, such as WPPI. The increased competition will result in lower rates to the customers in Wisconsin.
- The startup of the Midwest ISO Day 2 market has been a very expensive undertaking. The customers of Wisconsin utilities are paying their share of the costs. The only way customers in Wisconsin are to fully realize net benefits from the Midwest ISO market is if there is adequate access to the larger Midwest ISO

market. Without such access, the Midwest ISO market will do as designed and cause prices in congested areas to rise. Wisconsin consumers will ultimately pay a high price for the lack of adequate transmission access to the market, in addition to all of the costs of developing the Midwest ISO market.

#### Conclusion

In conclusion, WPPI believes that the two most feasible options remaining in the Access Initiative at this point are either to pursue building a 345 kV line from Byron to N. Madison or pursue building a 345 kV line from Salem to N. Madison. The Prairie Island to Columbia option may be feasible if entities outside ATC help foot the bill. The base case plus two fixes is not a viable long term solution for the state of Wisconsin for the reasons discussed above. ATC should use the remaining study time of the Access Initiative to fine-tune its analysis and determine which of the two leading 345 kV lines would provide the largest benefits (both economic and reliability) to Wisconsin consumers and has the highest probability of being successfully built.