

The Conundrum of Transmission Cost Allocation – or Resolving Middle East Peace

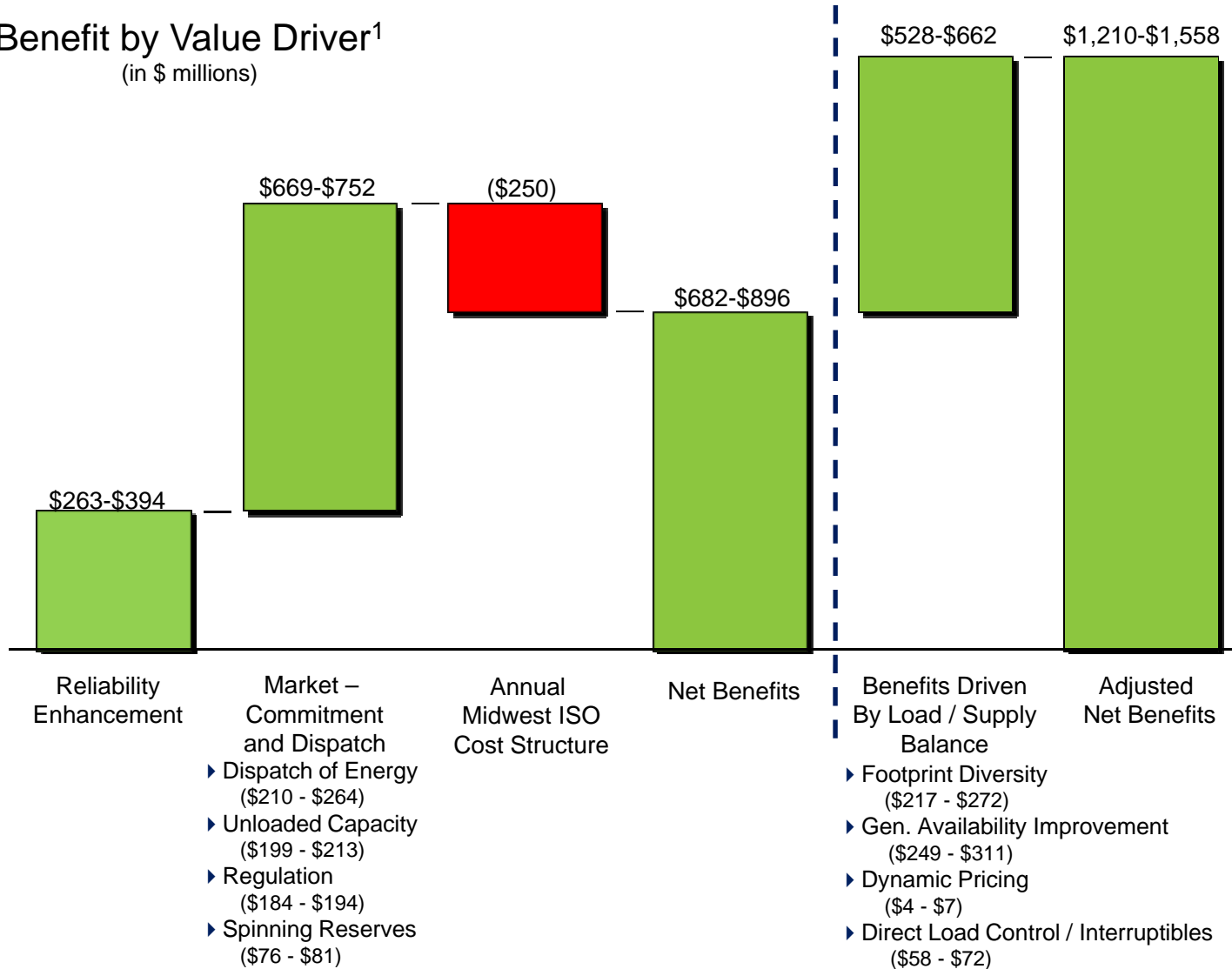
Mid-American Regulatory Conference

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The continuing growth of the Midwest ISO's value proposition depends on transmission expansion

Benefit by Value Driver¹
(in \$ millions)



¹Figures shown reflect annual benefits and costs for 2009

The benefits of a backbone transmission expansion on the scale contemplated in the Regional Generation Outlet Study (RGOS) far outweigh the cost

- Lower power costs to all consumers driven by:
 - Congestion relief,
 - Increased deliverability of wind, and
 - Expansion of storage
- Decreased planning reserve margins costs driven by:
 - Improved deliverability of generation
 - Improved deliverability of demand response resources
- Improved ability to economically meet Renewable Portfolio Standards (RPS)
- Increased economic development

There are several conditions precedent to transmission expansion - progress is being made on each of these items

- Increased alignment around energy policy
 - State and Federal
- A flexible yet comprehensive transmission plan with a robust business case
 - Lowest delivered energy cost versus lowest transmission cost
 - Balanced economic development
- A regional tariff that appropriately allocates expansion costs
- Cost recovery mechanisms that reduce financial risk

Cost Allocation Methodology History

Regionally Beneficial Projects

- Applies only to projects > 345kV that meet a threshold benefit requirement
- Benefit calculated for 3 sub regions
 - 70% Production Cost Savings
 - 30% LMP Savings
- Project cost allocated to sub regions based on relative benefit

Required FERC Filing for New Methodology

RECB I

RECB II

Interim

July 15th

Baseline Reliability Projects

- >100kV = 100% sub-regional
- >345kV = 20% footprint / 80% sub-regional

Generator Interconnection

50% to Interconnection Customer / 50% to zones

Generator Interconnection

- > 345kV – 90% to Developer / 10% split (20% footprint / 80% sub-region)
- < 345kV – 100% to Developer

Growth of Renewable Portfolio Standards

Western Seam – Local Benefit / Cost Issue

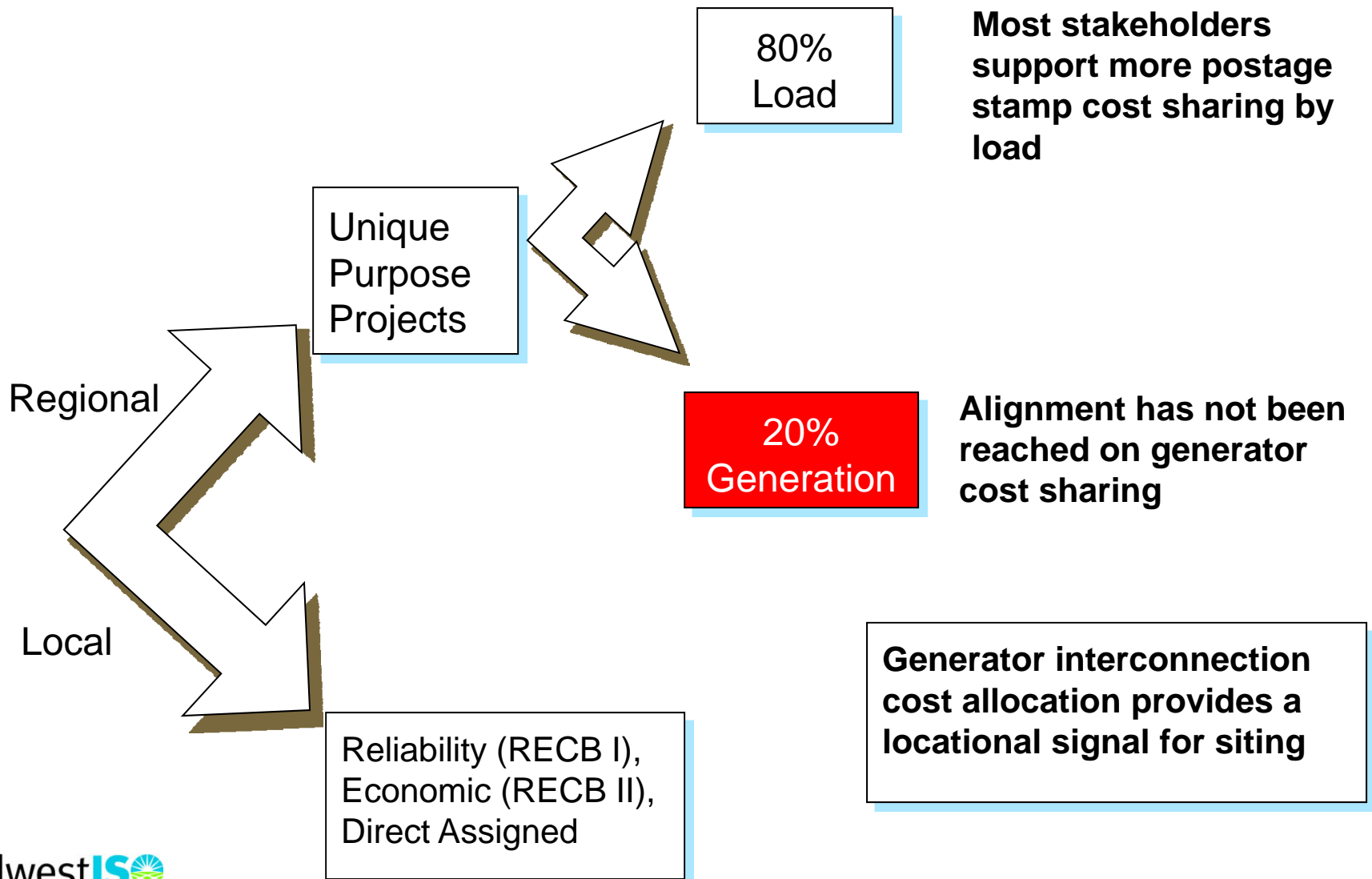
The Midwest ISO stakeholders began with the following objectives

- Eliminate / minimize free riders
- Ensure the “right” loads pay
- Reflect changing system usage over time
- Balance attributes of system use
 - Cost causer vs. beneficiary
 - Local vs. regional
 - Access (demand) vs. Usage (energy)



A fair cost allocation system to enable transmission development to support renewable integration, public policy, reliability and economic goals while maintaining the Midwest ISO Value Proposition

CARP's proposal has gained alignment on most issues including cost sharing of "backbone" transmission projects ...



The Conundrum

Include

“Generator Allocation”

- More precisely allocates costs to the “right load”
- Reduces free rider concerns
- Introduces discontinuity across the seams

Exclude

“Generator Allocation”

- Broader socialization of costs to load
- Maintains current business models
- Better aligns with cost methodologies in adjacent markets/systems

Take Aways

- This is a significant step forward towards building regional transmission
- We have not decided on our final filing
- We are continuing to visit with stakeholders to understand their thoughts and reach a compromise on the conundrum
- We will balance stakeholder input, our ability to enhance and deliver the value proposition and deliver our FERC filing on July 15