



Electrical Transmission Tariffs: Who Benefits, Who Pays, and Who Decides?

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Where Are We?

■ The bottom line is:

- Utilities have done a great job of wringing the value out of their service territories,

And

- The next value frontier is regional collaboration and investment in transmission to enable emerging regional electricity markets to minimize energy price over time

Where Are We?

■ Impediments to Any Investment Abound!

- Local problems
 - Why should we suffer infrastructure to help *them*?
- No consensus on Energy Policy
 - State by State conflict
 - Environmental and economic policy politics
- FERC tariffs are nearly irrelevant today
 - Shifting more cost to FERC tariffs cause earnings risk
- High fuel price pass through vs. a rate case risk

Where Are We?

■ Impediments to Cost Sharing

- Current infrastructure pricing remains balkanized
 - Entities have an obligation to vote their short-term pocket book
 - As costs are allocated, members offer to vote with their feet
 - Investment, therefore, is on narrowly focused interests
- Many States (and therefore their utilities) worry they will “subsidize” neighbors investments
 - “We made the investments we needed; how come they didn’t?”

Where Are We?

■ Implicit Objectives of Today's Planning

- Maintaining reliability criteria with Minimum transmission investment will yield maximum value
 - (Remember, higher fuel cost gets pass through)
 - (Bringing in competition doesn't protect your market share)
 - (All headlines are bad, remember)
 - (It's less than 10% of your business)
- 5 -Year planning horizons
 - Uncertainty of Sources of energy and locations
 - Planning horizons shorter than project horizons?

Where Are We?

■ Regional Expansion Criteria Benefits (RECB)

- RECB I

- Modest cost sharing based on a class of projects with obvious value
- Two members have indicated they may exit as a result

- RECB II

- Broader cost sharing
- Troglodytic criteria due to deep skepticism
 - Immature analytics
 - Fear loss of control of costs

Where Are We Going?

- Midwest ISO is pursuing a strategy to:
 - Change the objective of transmission planning from minimum peak capacity planning to delivered wholesale energy price (cost?)
 - Develop a better understanding of transmission investment's value proposition by:
 - Reflecting all identifiable value drives
 - Recognizing the public good attributes of delivery infrastructure
 - Recognizing the individual beneficiaries attributes
 - Trying to balance a cost allocation accordingly
 - Extending planning horizons to reflect project timescales
 - Scenario modeling
 - Articulate that value, adjust the sharing to correspond
- Develop political consensus
 - Engage State regulators and interested observers
 - Engage in the political process

All We Need To Do Is Find the Sweet Spot!

