

## ENVIRONMENTAL SECTOR'S RESPONSE TO CAPCOM QUESTION # 4 COST ALLOCATION PROPOSAL

**Have you designed a cost allocation proposal (either revising the existing methodology or creating a new methodology) that you would like OMS and MISO to consider?**

The Environmental Sector proposes a two-stage approach to cost allocation (CA) efforts for MTEP21 and the long-range-transmission planning (LRTP).

### **STAGE 1:**

Since MTEP21 will be focused on identifying market-efficiency projects (MEPs), CAPCom and RECBWG should focus on ensuring that all material benefits are recognized and counted in the MTEP21 evaluation. Hence, between January and June 2021<sup>1</sup>, CA work should be focused on modifying existing/adding additional benefit metrics to the MEP.<sup>2</sup> MISO recognizes that "the identification and application of additional benefit metrics results in an improvement in the alignment of costs allocated roughly commensurate with the benefits received."<sup>3</sup>

In his November 16<sup>th</sup> presentation to CAPCom, Johannes Pfeiffenberger identified additional benefits that are currently not recognized in MISO's tariff. These are real benefits and, by ignoring them, projects that would save consumers money are lost. Given the time constraints, the Environmental Sector suggests that CAPCom focus on only one or two additional benefit metrics in Q1 and Q2 of 2021, ones that would be the most meaningful in the MEP analysis. (The Environmental Sector made several benefit-metric suggestions in our response to Question #2<sup>4</sup>.) While we will likely only have time to consider one or two new metrics for MTEP21, more benefit metrics should be considered by MISO Stakeholders in the future.

**STAGE 2:** After benefit metrics are assessed and any necessary Tariff work is completed, we propose that after Q2 2021, the focus shifts to developing a cost allocation approach that would be applicable to the projects developed as part of the LRTP. The Environmental Sector proposes two options for Stage 2: a revision to the Multi-Value Project (MVP) project type, or a universal cost-allocation proposal that would replace all project types.

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<sup>1</sup> We are assuming that any new benefit metrics that would apply to MTEP21 would need to be submitted to FERC in mid-2021.

<sup>2</sup> While several stakeholders indicated in earlier comments to CAPCom that no change to the new MEP cost allocation methodology should be taken up at this time, it is important to note that the recent MEP cost allocation stakeholder review process always contemplated more benefit metrics beyond the two that were recently approved. For example, MISO's MEP filing at FERC stated that "The Bucket 1 items are the focus of this initial effort and included in this filing. Review of additional benefit metrics is currently underway in the RECBWG". FERC Docket ER20-1724, Appendix D, page 4, See also RECB meeting presentations of February and June, 2019 at <https://cdn.misoenergy.org/20190214%20RECBWG%20Item%2003%20Additional%20MEP%20Benefit%20Metrics318883.pdf> and [https://cdn.misoenergy.org/20190613%20RECBWG%20Item%2002%20Metrics%20Feedback%20\(RECBWG002\)354430.pdf](https://cdn.misoenergy.org/20190613%20RECBWG%20Item%2002%20Metrics%20Feedback%20(RECBWG002)354430.pdf).

<sup>3</sup> Docket ER-1724, Transmittal Letter page 13, April 30, 2020.

<sup>4</sup> [https://www.misostates.org/images/stories/meetings/Cost\\_Allocation\\_Principles\\_Committee/Item\\_3a\\_Stakeholder\\_Feedback\\_Question\\_2\\_Full\\_Responses.pdf](https://www.misostates.org/images/stories/meetings/Cost_Allocation_Principles_Committee/Item_3a_Stakeholder_Feedback_Question_2_Full_Responses.pdf)

## STAGE 2, OPTION A: REVISION TO THE MVP PROJECT TYPE

Because MISO has already announced that the LRTP will not recommend a portfolio, we propose to bifurcate the MVP project type into “Portfolio MVPs” and “Non-portfolio MVPs.” This paper develops a proposal for the Non-Portfolio MVP category.

The purpose of the LRTP is to design a grid that accommodates the rapidly transforming generation portfolio<sup>5</sup> including the need for geographically diverse intermittent resources and storage. Based on MISO’s announcements, the LRTP in 2022 and 2023 will likely identify projects that provide multiple benefits including reliability, public policy, and economic benefits, all the hallmarks of an MVP. Indeed, MISO’s compliance with FERC Orders depends on having a functional regional planning and cost-allocation process that includes all three components.<sup>6</sup> Currently only one regional project type – the Portfolio MVP – considers public policy drivers and regional reliability.<sup>7</sup>

Because MISO has already announced that it will not be developing a portfolio of projects through LRTP, MISO must create another regional cost allocation methodology that includes public policy (required under Order 1000) and reliability (required under Order 890).<sup>8</sup> (If MISO does not create a new regional cost-allocation approach for public policy and regional reliability projects, then it will be in violation of FERC Orders.) The Environmental Sector proposes that CAPCom begin with the Portfolio MVP framework<sup>9</sup> and determine how it must be tweaked to remove the portfolio.

The following proposes some ideas on how Non-Portfolio MVPs (NP-MVP) would differ from the Portfolio MVP type:

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<sup>5</sup> See MISO Futures Whitepaper at p. 9-11(Apr. 27,2020),

<https://cdn.misoenergy.org/20200427%20MTEP%20Futures%20Item%2002b%20Futures%20White%20Paper443656.pdf> (detailing aggressive state and utility carbon emissions plans in the MISO footprint).

<sup>6</sup> See Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities, Order No. 1000, 76 FR 49842 (Aug. 11, 2011), FERC Stats. & Regs. ¶ 31,323, ¶ 203 (“The Commission requires public utility transmission providers to amend their OATTs to describe procedures that provide for the consideration of transmission needs driven by Public Policy Requirements in the local and regional transmission planning processes”) ; Preventing Undue Discrimination and Preference in Transmission Service, Order No. 890, 72 FR 12266 (Mar. 15, 2007), FERC Stats. & Regs. ¶ 31,241, ¶528 (“In response to the commenters that indicate that regional planning already occurs today as part of the NERC planning process, we support any such processes, but reiterate that, if they are to meet the requirements of the Final Rule, they must be open and inclusive *and address both reliability and economic considerations*”).

<sup>7</sup> Order 1000 also requires that public policy be considered within local transmission planning, which presumably means MISO’s bottom-up process. See Order 1000, ¶ 203. It remains unclear how MISO ensures that public policy is being considered when the Transmission Owners plan and submit their reliability projects to the SPMs.

<sup>8</sup> See Order 1000, ¶558 (“We require that a public utility transmission provider have in place a method, or set of methods, for allocating the costs of new transmission facilities selected in the regional transmission plan for purposes of cost allocation”); Order 890, ¶ 557 (“We therefore find that, for a planning process to comply with the Final Rule, it must address the allocation of costs of new facilities”).

<sup>9</sup> See Attachment FF,§ II.C.

	<b>Portfolio MVP (P-MVP)</b>	<b>Non-Portfolio MVP (NP-MVP)</b>
<b>Portfolio</b>	Yes	No
<b>Cost Allocation</b>	Postage Stamp	<ul style="list-style-type: none"> <li>● 100 kV to 345 kV will be allocated based on beneficiaries within LRZs;</li> <li>● 345 kV or 500 kV and above will be allocated regionally based on load-ratio share perhaps within each LRZ;</li> <li>● Advanced Transmission Technologies will be allocated based on beneficiaries within the LRZs.</li> </ul>
<b>Planning Horizon</b>		20-40 years
<b>Size for transmission and associated equipment</b>	> 100 kV	Same as P-MVP
<b>Advanced Transmission Technologies</b>	Not addressed	Must bring regional benefits to qualify for regional cost sharing
<b>Cost</b>	≥ \$20 M	Same as P-MVP
<b>Other Criteria</b>	Meet one of following: <ol style="list-style-type: none"> <li>1. Policy/Laws<sup>10</sup></li> <li>2. Economic savings across multiple pricing zones; B/C Ratio 1.0</li> <li>3. Solves at least one projected violation of reliability standards plus at least one economic-based issue across multiple pricing zones; also benefits must exceed costs.<sup>11</sup></li> </ol>	Meet one of following: <ol style="list-style-type: none"> <li>1. Policy/Laws<sup>12</sup>: Same as P-MVP, but explicitly state that approved IRPs fall under this criterion.</li> <li>2. Economic Savings: Same as P-MVP.</li> <li>3. Reliability + Economic: Same as P-MVP. We note that reliability analyses should address stability issues related to increasing penetration of inverter-based resources.</li> </ol>
<b>Benefit Metrics for Economic Savings</b>	<ol style="list-style-type: none"> <li>1. Product Cost Savings</li> <li>2. Capacity cost savings due to reduction in losses or PRMs</li> <li>3. Savings from accelerating long-term project or deferring or eliminating projects</li> </ol>	Same as P-MVP plus add the new benefit metrics added to the MEPs: avoided reliability and MISO-SPP Settlement Agreement including any additional ones added in the future.

<sup>10</sup> Attachment FF, § II.C.2.a. (“[T]hrough the transmission expansion planning process for the purpose of enabling the Transmission System to reliably and economically deliver energy in support of documented energy policy mandates or laws that have been enacted or adopted through state or federal legislation or regulatory requirement that directly or indirectly govern the minimum or maximum amount of energy that can be generated by specific types of generation. The MVP must be shown to enable the transmission system to deliver such energy in a manner that is more reliable and/or more economic than it otherwise would be without the transmission upgrade.”)

<sup>11</sup> Attachment FF, § II.C.2.c. (“[M]ust address at least one Transmission Issue associated with a projected violation of a NERC or Regional Entity standard and at least one economic-based Transmission Issue that provides economic value across multiple pricing zones. The project must generate total financially quantifiable benefits, including quantifiable reliability benefits, in excess of the total project costs based on the definition of financial benefits and Project Costs provided in Section II.C.7 of Attachment FF.”)

<sup>12</sup> Order No. 1000, ¶216 (“[T]his Final Rule does not preclude any public utility transmission provider from considering in its transmission planning process transmission needs driven by additional public policy objectives not specifically required by state or federal laws or regulations . . . a public utility transmission provider has, and has always had, the ability to plan for any transmission system needs that it foresees.”)

	4. Any other financially quantifiable benefit	Also, expand the time-period for quantifying the benefits over the depreciation period for that asset. Example, if depreciated over 40 years, then benefits evaluated over 40 years.
<b>GIPs</b>	Excluded	Excluded unless they bring regional benefits. The generators may need to pay a \$/MW charge towards the upgrades.
<b>DC Lines</b>	Certain DC Lines are excluded, e.g., those subject to subscriptions and/or those not turned over to MISO's automatic generation control.	Ensure that DC lines that are developed as part of the LRTP are eligible for regional and/or interregional cost-allocation
<b>Incorporation of Bottom-Up Projects</b>	Unclear	LRTP should also include a robust mechanism for consolidating the bottom-up projects--which are typically identified in the SPMs--into larger, more beneficial projects.
<b>Frequency of Planning for Non-Portfolio MVPs</b>	Only once in MISO's history	Due to the likelihood of continued rapid transformation, MISO should also commit to undertaking LRTP on a regular, ongoing basis.

**STAGE 2, OPTION B - UNIVERSAL COST ALLOCATION BASED ON BENEFICIARIES PAY**

As the Environmental Sector and some others have indicated in previous position papers, a single cost allocation approach recognizing that all network upgrades have the potential to bring multiple benefits is worth exploring. Under this proposal, upgrades would not be siloed into different project types for cost allocation, but all projects would be evaluated to determine the level of reliability, economic, public policy, and interconnection benefits they bring, and beneficiaries would be charged appropriately. Multiple types of models including, but not limited to, PROMOD and power flow models would be used to determine what benefits load and generators are receiving including:

- economic benefits
- reliability
- ability to comply with public policies
- interconnection/access to markets
- diversification of resources
- resilience
- others?

Based on multiple benefit metrics evaluated, costs would be allocated based on the benefits parties are estimated to receive; if some benefits are hard to quantify and cannot be directly assigned to a specific party, then costs related to those benefits would be shared equally. Given the time needed for robust benefits evaluation, it may be most efficient to limit this cost allocation approach to projects that meet certain thresholds such as cost, voltage, and/or cost/MW.

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The Environmental Sector also supports the Jointly Funded Network Upgrade proposal submitted by AWEA and CGA.