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## Underscoring industry divide **Midwest CEOs Fail To Reach Compromise On Cost Allocation Language**

Midwest electric utility CEOs who are deeply divided on how best to allocate the costs of new transmission lines failed to reach a compromise on the contentious issue at a closed-door meeting in Washington, DC, last week, according to two industry sources familiar with the meeting's deliberations. The CEOs' lack of progress at the meeting underscores the complexities of finding a middle ground on an issue that has split the industry into two rival factions and is likely to be addressed in the coming months by either Congress or FERC.

The CEOs, who are all members of the Midwest ISO, met in Washington, DC, on March 3 to discuss transmission issues in general, but sources say the meeting focused on an attempt to forge a compromise on cost allocation. Meeting participants reached an impasse, however, on a controversial cost allocation amendment authored by Sen. Bob Corker (R-TN) that is included in the energy legislation passed by the Senate Energy & Natural Resources Committee, sources say. The amendment would restrict FERC's ability to allocate transmission costs regionally unless those costs are "reasonably proportionate to measurable economic and reliability benefits."

Utilities like Ohio-based American Electric Power (AEP) and the independent transmission company ITC Holdings Corp. oppose the Corker language while others, like the Michigan-based CMS Energy, support it. The proponents of the amendment say the language will keep FERC from spreading costs widely, but critics say it creates an impossible analytical requirement to quantify benefits. The two opposing utility coalitions have sent a series of letters to lawmakers in recent months outlining their preferences on cost allocation ahead of Senate action in the coming months on a climate and energy bill that is expected to include a transmission title.

One source familiar with the meeting debate says a number of compromise proposals were discussed, including proposals to endorse "some form of regionalized cost socialization." The source also says that the CEOs worked to "find a sweet spot between what degree of regional cost support was necessary and what appropriate safeguards for beneficiary pay principles were valid."

The source says the CEOs worked to "think outside the box" on the best way to revise the Corker language so that all parties could accept it. The discussion, the source adds, focused on potentially changing the amendment's use of the word "measurable" to a less quantitative word, but ultimately the CEOs were "not sure how to fix it."

There was a willingness on the part of the CEOs to work together to develop a compromise, but the meeting resulted in little progress, the source says. The CEOs committed to continue working together on the issue, but no time line

was established for further meetings.

FERC's role in transmission cost allocation was also discussed at the meeting. "The consensus of the MISO CEOs is that FERC should play a strong role, but as a dispute-resolution role to the extent that disputes can't be worked out. FERC should be backstop," the source says.

The discussion of FERC's role comes as some in the electric industry anticipate FERC will weigh in on cost allocation either in a broad rulemaking or in individual cases that are pending before the commission. A second source familiar with the meeting deliberations, who confirms that the CEOs were unable to reach any sort of compromise on cost allocation, says the CEOs are feeling pressure to come to consensus in the expectation that FERC will address the issue.

"They want to find some kind of middle ground. I think they're worried that if they don't, FERC's going to do it for them," the source says, adding, "They are trying to improve the [Corker] language to find some middle ground. Like everybody else, they can't. Nobody has a good answer."

The decision to hold a transmission policy meeting stems from a discussion among MISO CEOs that took place at a breakout session during a January Edison Electric Institute (EEI) winter meeting in Arizona. A source at EEI has said that the Corker amendment did not come up at the winter meeting, noting that members focused on reliability issues. But several sources say cost allocation issues were discussed in breakout sessions at the January EEI meeting and the decision to hold last week's MISO CEOs meeting on the issue was made during those sessions. Sources stress that EEI was not a participant in the March 3 meeting.

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