THE MISO REGIONAL COST ALLOCATION FOR NEW TRANSMISSION

IMPLICATIONS FOR MICHIGAN

Presentation to the House Committee on Energy and Technology

April 26, 2011

THE MISO NORTHEAST TRANSMISSION CUSTOMER COALITION

• ATTORNEY GENERAL OF MICHIGAN

•ASSOCIATION of BUSINESSES ADVOCATING TARIFF EQUITY (ABATE)

Alcoa Inc.
Cargill
Chrysler Group LLC
Delphi Corporation
Dow Chemical Co.
Dow Corning Corp.
Eaton Corporation
Edward C. Levy Co.
Enbridge Energy
Ford Motor Co.
General Motors
Gerdau-MacSteel
Marathon Petroleum Co.
Martin Marietta Inc.
Praxair, Inc.
U.S. Steel Corporation

•CONSUMERS ENERGY

•DETROIT EDISON

•MICHIGAN MUNICIPAL ELECTRIC ASSOCIATION (MMEA)

Baraga
Daggett
Hart
Negaunee
Sebewaing
Bay City
Detroit
Hillsdale
Newberry
South Haven
Charlevoix
Dowagiac
Holland
Niles
Stephenson
Chelsea
Eaton Rapids
L'Anse
Norway
Sturgis
Clinton
Escanaba
Lansing
Paw Paw
Traverse City
Coldwater
Gladstone
Lowell
Petoskey
Wakefield
Croswell
Grand Haven
Marquette
Portland
Wyandotte
Crystal Falls
Harbor Springs
Marshall
St. Louis
Zeeland

•MICHIGAN PUBLIC POWER AGENCY (MPPA)

Bay City
Hart
Portland
Chelsea
Holland
St. Louis
Eaton Rapids
Lansing
Traverse City
Grand Haven
Lowell
Wyandotte
Harbor Springs
Petoskey
Zeeland

Michigan Residents are Harmed by the Midwest ISO Proposal

•On December 16, 2010 the Federal Energy Regulatory Commission (FERC) issued an Order approving a tariff for the Midwest ISO (MISO) that will result in billions of dollars of future regional transmission costs being socialized or equally assessed on every customer in the MISO region.

•On January 18, 2011 the MISO NE Transmission Customer Coalition filed a Request for a Rehearing with the FERC. On February 11, 2011, the FERC issued a common tolling order to afford additional time for consideration of the matters raised in the Request for Rehearing.

•MISO elected to use the simplest of cost allocation methods with little analysis of the economic impact of the individual states.

•This socialized cost allocation method spreads the costs equally across all of the MISO footprint even though the benefits from the projects are not equally distributed. There is in fact considerable variance between the costs assessed to the customers and the benefits received.

•If the FERC decision is not reversed, Michigan's transmission rates will increase by approximately $500 million dollars annually. More critically, the related increase in electric rates to Michigan's customers in particular will far exceed any benefit gained through the development of these new regional transmission projects.

•In essence, Michigan electric customers would end up subsidizing other states' initiatives to develop renewable energy generation outside of this State.

Michigan's Unique Position

•**Disproportionate share of costs**. Michigan represents nearly 20% of the MISO market and, accordingly, under the approved formula this State would be responsible for 20% of the costs associated with specific new transmission projects developed throughout the Midwest. Michigan's residents and businesses will pay a disproportionate share of the costs for transmission built elsewhere in the region without realizing any of the benefit.

•**Michigan's renewable energy market**. Michigan has a RPS of 10% by the year 2015 and the renewable energy to meet the RPS must have been generated within the State (2008 PA 295). This means that Michigan will be unable to use the renewable energy generated from outside the state toward meeting the State RPS. More importantly, it will lead to devastating economic harm to Michigan through the loss of new green jobs, a loss in discretionary income from Michigan ratepayers, and loss of potential new tax base from new renewable projects that would have otherwise been built in Michigan.

•**Michigan's emerging economy**. Michigan is experiencing one of the worst economic times in its history and among the worst in the nation. Contrary to the FERC claim that socializing the allocation of costs will create competitive markets, it will merely establish winners and losers with Michigan customers subsidizing the construction of transmission and the resulting wind generation in competitor states. Without Michigan's contribution, the remotely located projects in the western states of MISO will likely be too costly and will not get built. Even so, it is patently unfair to force Michigan to be a donor state for others to develop transmission and renewable energy in in direct contrast to the goals of Public Act 295.

WHY THE ARGUMENTS FOR SOCIALIZED COST ALLOCATION DO NOT WORK FOR MICHIGAN

•Socialization of costs only has merit when there is some relationship between the costs imposed and benefits received. That nexus does not exit with this tariff because FERC/MISO is attempting to apply a generalized solution without insuring protection for those unfairly impacted. Socializing transmission costs as ordered by FERC will materially and adversely add cost to Michigan's citizens and job providers without the commensurate benefits.

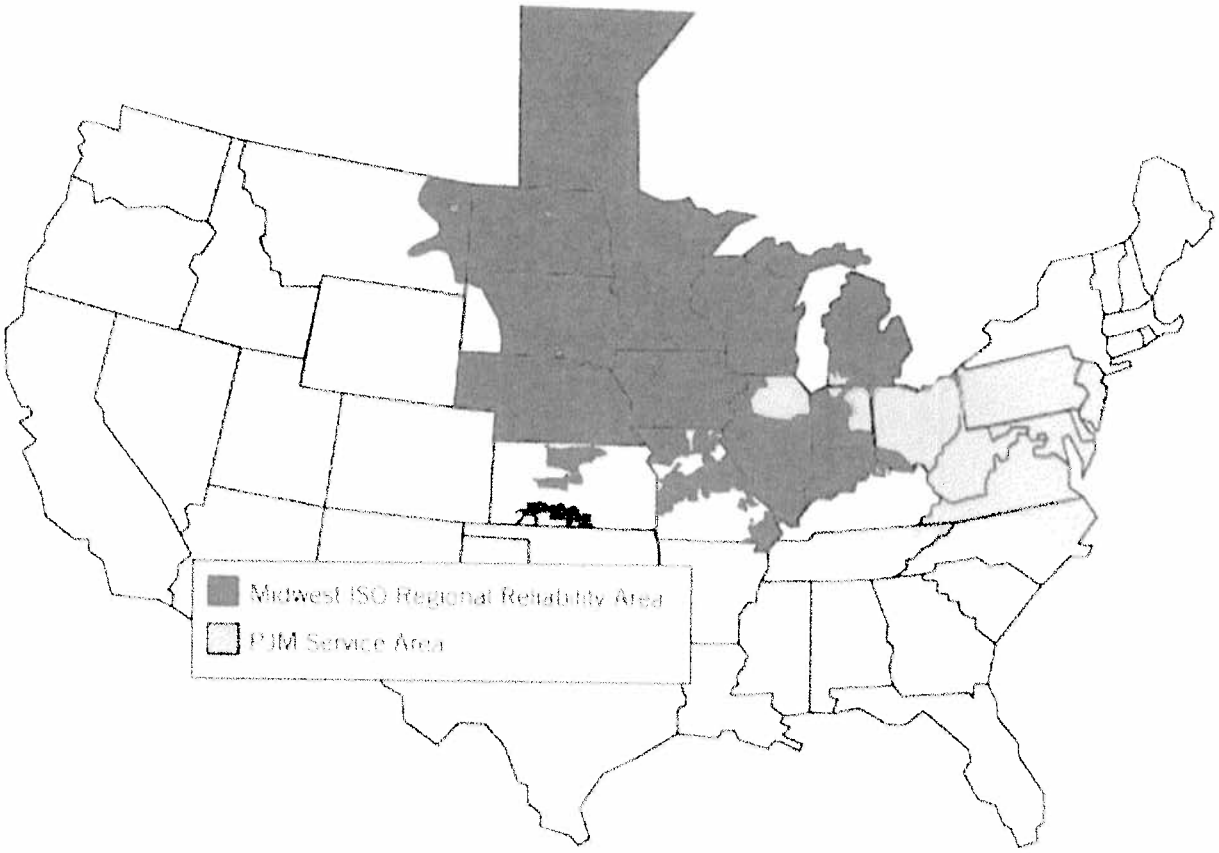
•Michigan is in fact separate from MISO with different issues and problems not shared with many of the other MISO states. It is far more physically interconnected to PJM and Canada. The lines for the RTO do not follow any rational basis (*see* MISO map). In essence, what is being advocated is a uniform policy to be applied across a region that is not uniform.

•The tariff approved by FERC does not have the support of a majority of MISO states, including the MPSC. The FERC is ignoring its statutory duty by approving the tariff without examining whether the rates under the new MISO tariff are just and reasonable pursuant to the Federal Power Act. FERC is attempting to establish by regulation a national energy policy that Congress has not approved.

•The total costs to Michigan are significant, especially for business customers.

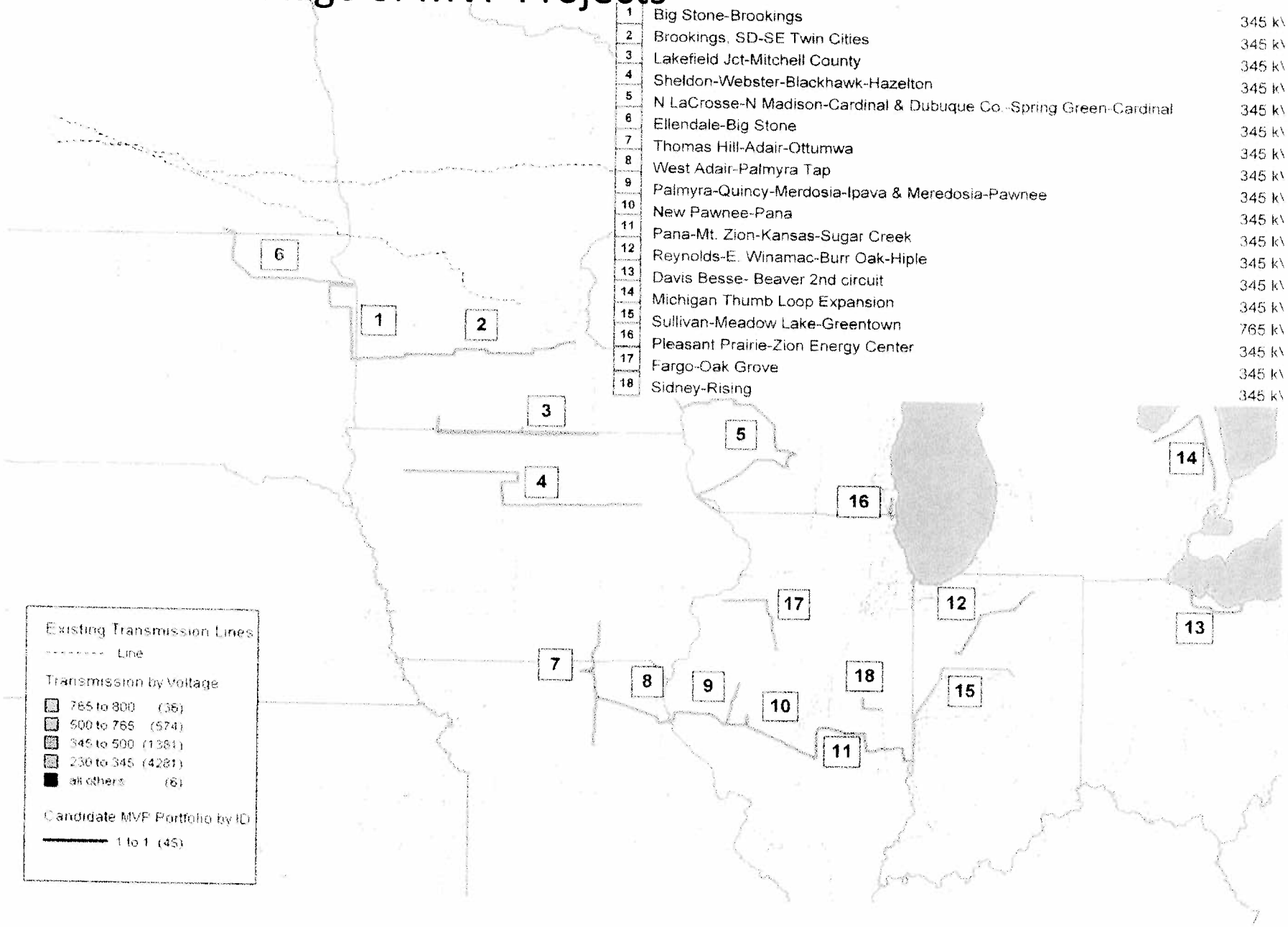
MISO and PJM Service Areas

Reflects move of First Energy to PJM



MISO First Stage of MVP Projects

1	Big Stone-Brookings	345 kV
2	Brookings, SD-SE Twin Cities	345 kV
3	Lakefield Jct-Mitchell County	345 kV
4	Sheldon-Webster-Blackhawk-Hazelton	345 kV
5	N LaCrosse-N Madison-Cardinal & Dubuque Co.-Spring Green-Cardinal	345 kV
6	Ellendale-Big Stone	345 kV
7	Thomas Hill-Adair-Ottumwa	345 kV
8	West Adair-Palmyra Tap	345 kV
9	Palmyra-Quincy-Merdosia-Ipava & Meredosia-Pawnee	345 kV
10	New Pawnee-Pana	345 kV
11	Pana-Mt. Zion-Kansas-Sugar Creek	345 kV
12	Reynolds-E. Winamac-Burr Oak-Hiple	345 kV
13	Davis Besse- Beaver 2nd circuit	345 kV
14	Michigan Thumb Loop Expansion	345 kV
15	Sullivan-Meadow Lake-Greentown	765 kV
16	Pleasant Prairie-Zion Energy Center	345 kV
17	Fargo-Oak Grove	345 kV
18	Sidney-Rising	345 kV



MISO First Stage of MVP Projects

Summary of Projected Costs for MISO Multi-Value Project (MVP) Portfolio				
Reference*	Name	Voltage Class	Projected Cost	
1	Big Stone - Brookings	345 kV	$	150,000,000
2	Brookings, SD-SE Twin Cities	345 kV	$	767,623,369
3	Lakefield Jct - Mitchell County	345 kV	$	600,000,000
4	Sheldon - Webster - Blackhawk - Hazelton	345 kV	$	533,250,000
5	N LaCrosse - N Madison - Cardinal & Dubuque Co. - Spring Green - Cardinal	345 kV	$	417,344,562
6	Ellendale - Big Stone	345 kV	$	275,000,000
7	Thomas Hill - Adair - Ottumwa	345 kV	$	195,000,000
8	West Adair - Palmyra Tap	345 kV	$	100,000,000
9	Palmyra - Quincy - Merdosia = Ipava & Meredosia - Pawnee	345 kV	$	386,000,000
10	New Pawnee - Pana	345 kV	$	76,000,000
11	Pana - Mt. Zion - Kansas - Sugar Creek	345 kV	$	302,000,000
12	Reynolds - E. Winamac - Burr Oak - Hiple	345 kV	$	90,000,000
13	Davis Besse - Beaver 2nd Circuit	345 kV		TBD
14	Michigan Thumb Loop Expansion	345 kV	$	510,000,000
15	Sullivan - Meadow Lake - Greentown	765 kV	$	171,875,000
16	Pleasant Prairie - Zion Energy Center	345 kV	$	25,000,000
17	Fargo - Oak Grove	345 kV	$	146,000,000
18	Sidney - Rising	345 kV	$	31,000,000
		Total	$	4,776,092,931

Information gathered from CMVPP Presentation presented at the December 2010 MTEP East Subregional Planning Meeting

*References to project indentification numbers located on Supplemental MTEP MVP Map

The Michigan Solution

- A coalition of interests that includes the Michigan Attorney General, the Association of Businesses Advocating Tariff Equity (ABATE) and the State's major utilities (Consumers Energy, DTE Energy, Michigan Public Power Agency, and Michigan Municipal Electric Association) formed to address this potential wrong.

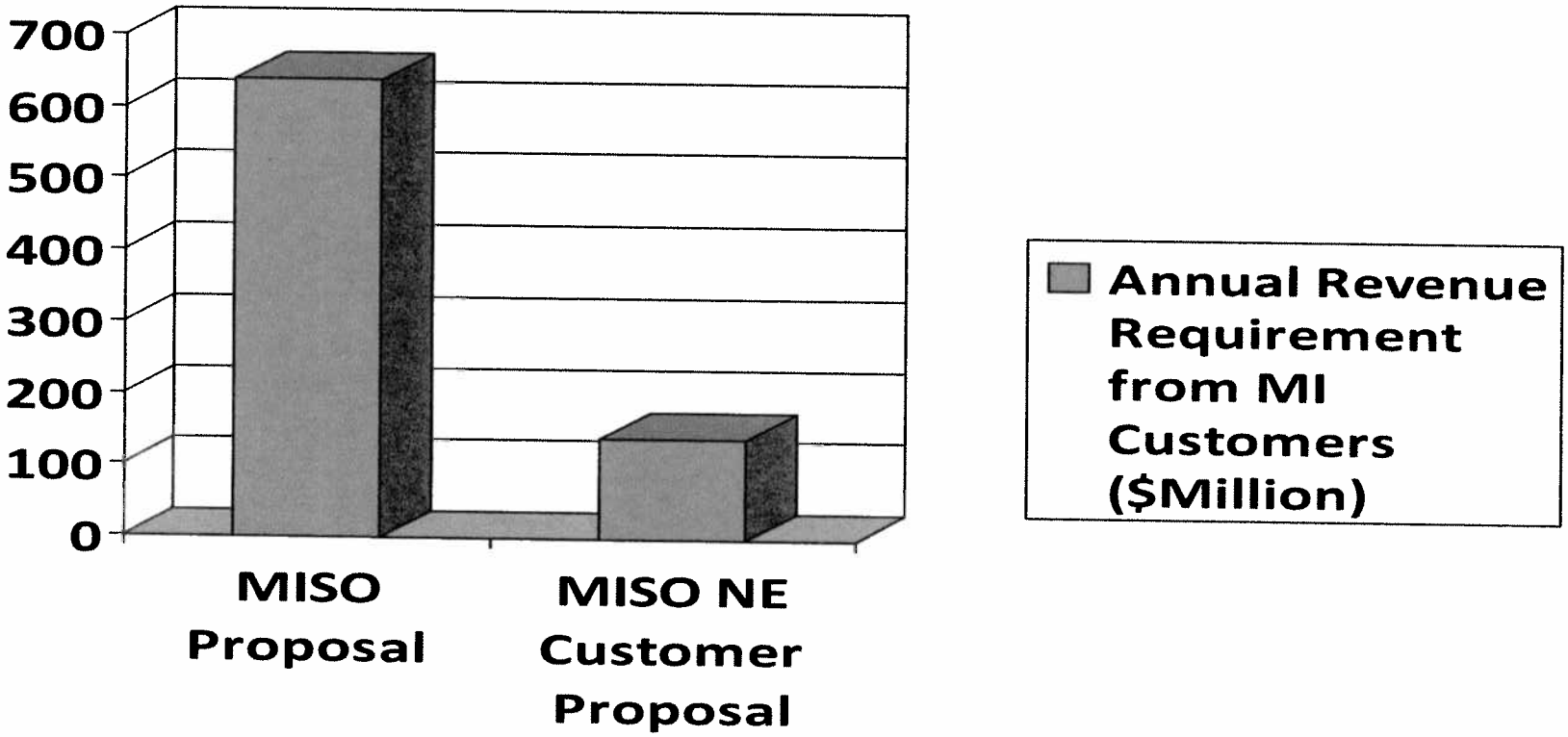
- A formal protest was filed on September 10, 2010 with the Federal Energy Regulatory Commission - FERC (see Protest and Request for Hearing of *MISO Northeast Transmission Customers* under ER10-1791). The Michigan Public Service Commission also filed a protest. In total, 21 protests were submitted objecting to the proposed tariff. FERC rejected all requests for modification and approved the tariff as files by MISO on December 16, 2010.

- On January 18, 2011 the MISO NE Transmission Customer Coalition filed a Request for a Rehearing with the FERC. On February 11, 2011, the FERC issued a common tolling order to afford additional time for consideration of the matters raised in the Request for Rehearing.

- This coalition is advocating that FERC designate the lower peninsula of Michigan as a separate and unique planning and cost region within MISO and that Michigan's ratepayers pay for the transmission system developed within Michigan to meet in-state renewable energy development.

- In turn, the electric customers in this separately designated region of Michigan would not be forced to pay for the development of electric transmission developed outside of the region for the purpose of meeting other states' RPS requirements or for speculative investments.

FERC Approved MISO Proposal vs. MISO NE Transmission Customer Coalition

Annual Estimate of Transmission Costs for Michigan Ratepayers

While MISO has currently approved MVP "Starter Projects" totaling $4.8 Billion, MISO has also indicated that the addition of future MVP projects could increase the total development cost to between $16 and $20 Billion. If the project total were to grow to $16 Billion, the required contribution to Michigan ratepayers would amount to **$640 Million per year**. This cost is conservative and could grow considerably higher. Alternatively, the proposal offered by the Coalition, which keeps Michigan funds in the state funding Michigan projects, would cost **$140** Million per year.