PUBLIC SERVICE COMMISSION

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Dear Sen. Peterson & Rep. Milburn:

I write today to express to you some thoughts about recent Federal Energy Regulatory Commission (FERC) activity regarding the allocation of cost of large transmission projects.

Recently, I am sure you have heard the argument that somehow Montana ratepayers could end up paying for interstate transmission projects designed primarily for export. I want to emphasize that this is not the business model proposed by any merchant line or public utility contemplating constructing such a transmission line in the State of Montana; Tonbridge and NorthWestern Energy have said repeatedly that the costs of MATL and MSTI, respectively, will be borne by the customers shipping power on those lines.

Since there has been so much conjecture about what FERC is doing, might be doing, could be doing, etc., I thought it better simply to include with this letter a photocopy of the relevant parts of the transmission cost-allocation Notice of Proposed Rulemaking (NOPR) RM10-23-000, which was issued last June.

The very FERC proposal to which some persons have been referring, moreover, explicitly states: "[T]he principles proposed in this rulemaking do not foreclose the opportunity for a transmission developer or individual customer to voluntarily assume the costs of a new transmission facility. **In other words, the proposed principles do not prohibit voluntary participant funding**" (P168, emphasis added). This is the precise business model suggested by MATL's and MSTI's respective developers, and there is no indication from the FERC that this business model would be pre-empted by the FERC order. Examples where the FERC has approved such a cost-allocation model are numerous and can be found at P128.

I have highlighted those parts by which it might be inferred that costs of transmission lines predominantly intended for export could be imposed upon Montana ratepayers. However, I regard that prospect as unlikely for the reason stated above: It appears transmission developers currently working in Montana have reached voluntary agreements with their generator-customers as to how the lines would be financed.

If the FERC did become involved, the question would boil down to how MATL, MSTI, or other interstate transmission lines would “benefit” Montana ratepayers. These lines possibly provide benefits to ratepayers 1) by providing some degree of additional reliability to the grid as a whole (think of a large transmission line as a backbone, by which the entire body benefits, even if unconnected to the line) and 2) by opening up a bottleneck which could encourage new imports to challenge PPL’s current near-monopoly on generation assets. Even so, Montana’s problem is not that it has too little capacity and generation. Montana’s problem is that it has an abundance of capacity and its generation assets, particularly wind, are experiencing significant growth.

Even if a cost-allocation method imposed costs on Montana ratepayers, the FERC NOPR suggests that “the costs allocated to a beneficiary under a cost allocation method [must be] at least roughly commensurate with the benefits that are expected to accrue to that entity” (P147). Given that the NOPR sets forward a case-by-case consideration and specifically states that there will be no general rule on cost allocation, I believe it is very premature to declare that the sky is falling and that costs will be imposed unduly upon Montana ratepayers.

The FERC is considering this cost-allocation problem in the first place because of the view that needed transmission infrastructure projects are being delayed because of a failure to come to consensus on cost allocation. But this is certainly not a problem as it concerns MATL, where, I reiterate, the parties involved voluntarily have agreed to cost allocation which does not involve Montana ratepayers. I believe the FERC will not overturn the very apple cart they want to see remaining upright. Moreover, throughout the NOPR, the FERC indicates that it is likely to defer to cost-allocation models devised by the parties involved, or by the public utility (if it is a utility project), or by regional planning organizations.

As you can read for yourself, the NOPR is vague, prospective, and even if it was adopted as a rule by FERC its implementation probably would not alter the cost-causer-pays business model voluntarily adopted by developers and clients of interstate transmission lines intended to export mostly renewable generation.

The bottom-line, as I see it, is that transmission which connects remote resources to areas of high demand is inevitable. Either the State of Montana can encourage private merchant-line projects which are more likely to allocate costs, properly, to private generators and users in high-demand areas. Or, the State of Montana can do nothing—until the federal government declares a "transmission infrastructure crisis," mandates an existing or new federal agency to fix it, and then begins to build new, federal-government-owned transmission lines, the costs of which surely would be socialized across ratepayers everywhere, including in Montana.

I believe that if we take the long view of this problem, there is no way to escape the conclusion that we should do what we can to encourage privately held and investor-owned development now, to obviate the future need for the federal government's larger and more sweeping involvement.

I am happy to speak with you or others who have questions or concerns about these important issues; please call or email me anytime.

Very truly yours,

Travis Kavulla
Commissioner, District #1