

1. The role of transmission planning

There appear to be two alternative views of the role of transmission planning. The first is that planning is a means of using the best information available, including uncertain forecasts of future conditions as well as assumptions about key variables, to model the performance of possible transmission investments. It generally should look at both direct and indirect costs and benefits, that is, both the direct benefits to users of transmission improvements and the generalized system benefits accruing across the grid. The result of planning, in this view, is a set of alternative investments that may warrant further investigation or implementation if the beneficiaries view the results as sufficiently attractive and sufficiently likely that they are willing to risk their funds. The transmission plan itself is illustrative and is meant to signal to investors projects that may warrant their attention. The plan is not itself a blueprint for investment or construction.

The second view of transmission planning is that, because it represents a global perspective, unavailable for various reasons to individual utilities or transmission providers, the results represent a socially optimal transmission expansion plan that should be implemented, with costs allocated to beneficiaries in accordance with the distribution of benefits predicted by the planning models.

We (NorthWestern Energy/NTTG/?) hold the view that transmission planning is inherently an exercise in the evaluation of risk and uncertainty, and that the results of planning is an indicative plan, not a blueprint for investment. This view underlies the planning process presented in this strawman document demonstrating how we will satisfy the principles for transmission planning required by FERC in Order 890.

2. Providing incentives for construction of new transmission

Principle 9 of Order 890 requires the transmission provider to show how costs will be allocated for transmission projects in a way that, among other characteristics, will provide adequate incentives to construct new transmission. We interpret this requirement to apply to the construction of new transmission that is worth building, since it makes no sense to provide incentives for wasteful investment. As discussed above in the paragraphs describing our view of the role of transmission planning, we recognize that planning inherently involves uncertain projections of future conditions as well as the use of assumptions about key variables, and that as a consequence evaluations of the merits of projects, their costs and especially their benefits are inherently uncertain. Investments made under conditions of uncertainty are risky, and we believe that the evaluation of risky investments is best made by the potential beneficiaries, who are the most qualified to decide whether the risks are warranted by the likely benefits. Thus the final

demonstration of whether a transmission project, deemed by the plan to be worth further consideration, is actually worth building, is when beneficiaries are willing to risk their own resources to finance it.

We recognize that there may be diffuse benefits of a project, in addition to those that can be captured by project developers, that may in some cases be deemed to justify allocating or spreading a portion of costs to other parties. In our view the best judges of whether those benefits are likely to occur, or are even real, are the parties to whom those costs would be spread, and thus we will require voluntary agreement before proposing any such cost allocations to regulators. In any case we believe there is sufficient opportunity (and incentive) for mischief and exaggeration of diffuse benefits by parties seeking to shed costs, that we will require a high burden of proof of the existence of such benefits for a private purpose (economic) project before we will consider applying the principles of cost allocation described below. We suggest that the best outcome will be when a project has the voluntary agreement of the various beneficiaries for financing the entire costs of a project.

3. Involuntary cost allocation

Several examples have surfaced in other locales of proposals for allocating a portion of costs to parties without their assent. MISO, for example, has proposed that ___ percent of each transmission project cost be spread across the entire footprint of MISO. Recently FERC approved a proposal by the California ISO to spread up to 75 percent of the cost of certain transmission projects to all CAISO transmission customers, as long as at least 25 percent was subscribed by users. We do not agree with these proposals and do not think they are in the public interest. However, we suggest that whenever there is any involuntary allocation of costs of a transmission project, an equivalent portion of project ownership or rights must go with it.