

Staff Report

MISO TRANSMISSION COMMITMENT LETTER

February 27, 2018

BACKGROUND:

Ames is a member of the MISO (Midcontinent Independent System Operators) transmission owners group. Recently there was a complaint brought before the Federal Energy Regulatory Commission (FERC) that public transmission owners (MEC, Alliant, others) are treated differently than other non-public utility transmission owners (AMES, Cedar Falls Utilities, Muscatine, etc.). In the off chance that the FERC orders a refund, municipals aren't bound by the FERC rules. A possible example that may lead to a refund is if a utility over collects transmission fees.

Another example of a possible refund situation could occur due to changes in the Return on Investment (ROI) set by the FERC. To correct this inconsistency between investor-owned utilities and municipals, MISO is giving the non-public utilities (municipal utilities) a choice:

- A) Sign a document that commits non-public utilities to the same requirements as the public utilities (investor owned utilities), or
- B) Allow the municipal utility to leave MISO as a transmission owning utility.

Staff has vetted the two options internally, with MISO, and with other municipals in Iowa. All municipal utility staff members to whom we have spoken have signed the form and are remaining as a MISO transmission owner.

As a transmission owner in MISO, the City "shares" its transmission system with other utilities. The City is credited for the transmission investments it's made, and billed for the transmission service it uses. **Presently, the City has more investments than expenses and we receive yearly transmission revenues of roughly \$2,000,000.** By choosing Option A above, the City would continue to receive revenues, but would be subject to refunds if MISO deems necessary. This alternative puts Ames on a level playing field with other utilities, but could subject the utility to refunds if they were "overpaid" for service. (As an example, in 2014/15 the FERC lowered the guaranteed ROI for transmission investments from 12.45% by about 1% point which resulted in a refund.)

The other option was to leave MISO as a transmission owner. The City would no longer be subject to possible refunds, but would not receive any credits for its

transmission investments. The City's transmission revenues are roughly \$2,000,000 per year and the estimated increase in expenses would increase roughly \$1,000,000 per year; a \$3,000,000 swing to Electric Services' bottom line annually.

According to MISO there are no currently pending refunds. There is an "ROI Challenge" that was submitted late in 2017, but nothing has been decided. It should be noted that if this challenge proves successful, the refund would be less than the revenue that the City receives in a month of transmission revenue.

MISO required all utilities to return the signed form by Feb 20th. Failure to sign would have meant removal from MISO as a transmission owner. Upon completion of staff's analysis of the alternatives, the Electric Services staff concluded the best course of action would be to remain as a MISO transmission owner and be subject to the same refund obligations at other public transmission owners. The City Attorney reviewed the MISO form and advised that staff approval was adequate in this case. The form was signed by Donald Kom, Director of Electric Services on behalf of the utility. Attached is the signed form.

STAFF COMMENTS:

No action is being requested of the City Council! This matter is being brought before the Council so that the members are aware of this action in the event Electric Services is required to participate in a MISO refund with other transmission users sometime in the future. It is important to note it appears that at this time the benefits from remaining a MISO transmission owner outweigh the potential risk of a refund obligation under this commitment letter.



**Non-Public Utility Transmission Owner Commitment to Make Refunds
Or, Alternatively
Notice to Initiate Removal of Assets from MISO**

The Federal Energy Regulatory Commission has stated concern over the refund commitments provided by non-public utility transmission owners regarding situations whereby such owners receive revenue as provided for under RTO rates, terms, and conditions. FERC ordered that MISO must:

. . . obtain refund commitments from all non-public utility transmission owners at the time that it adopts the Tariff Revisions establishing the refund commitment, as well as initiate the process to remove any transmission owner's transmission assets from MISO's functional control at that time Such removal must be consistent with the applicable Transmission Owners Agreement provisions for the withdrawal of transmission owners.¹

I, the undersigned authorized representative of City of Ames, a non-public utility Transmission Owner of MISO, elect ONE of the following options:

Commit to refunds ordered in Federal Power Act Section 205 and 206 proceedings initiated on or after October 26, 2017 related to revenues that may be received associated with service provided under the MISO Tariff as a Transmission Owner, ITC, or ITC Participant.

or

Seek to initiate the process to remove assets from MISO's functional control, consistent with the applicable provisions in the Transmission Owners Agreement.

Signature: [Handwritten Signature]

Date: 14 Feb 18

Printed Name: Donald E. Korn
Title: Director, Electric Services

¹ Midcontinent Independent System Operator, Inc., 161 FERC ¶61,057, Order on Paper Hearing and Instituting Section 206 Proceeding, Establishing Refund Effective Date, and Consolidating Proceedings, at P 54 (October 19, 2017) (emphasis added).