UNITED STATES OF AMERICA BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission System Operator, Inc. and International Transmission Company d/b/a ITCTransmission

Docket No. ER11-1844-___

MOTION TO DISMISS OR FOR SUMMARY DISPOSITION OR, IN THE ALTERNATIVE, REQUEST FOR EXPEDITED ACTION ON REHEARING REQUESTS OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

Pursuant to Rules 212 and 217 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the "Commission"), 18 C.F.R. §§ 385.212 & 385.217 (2011), the New York Independent System Operator, Inc. (the "NYISO") hereby moves for dismissal or summary disposition of the October 20, 2010 filing in this proceeding by the Midwest Independent Transmission System Operator, Inc. ("MISO") and International Transmission Company ("ITC") (together, the "Filing Parties"). In the alternative, pursuant to Rule 212, the NYISO hereby requests that the Commission issue an expeditious ruling on the rehearing requests pending in this proceeding; in particular the January 21, 2011 *Request of New York Independent System Operator, Inc. for Expedited Reconsideration or Rehearing, Request to Stay Proceedings, and Motion for Shortened Response Period* (the "NYISO Rehearing Request"). The NYISO respectfully requests a shortened comment period and expedited Commission action on these motions.

I. SUMMARY

The Commission should promptly dismiss the MISO and ITC October 20, 2010 filing in Docket No. ER11-1844-000 (the "MISO/ITC Filing") because it is inconsistent with clearly

enunciated Commission policy, including Order No. 1000,1 which the Commission issued after it issued the December 30 Order. The MISO/ITC Filing is directly and unambiguously inconsistent with Order No. 1000's Regional Cost Allocation Principle 4, because it proposes to allocate costs incurred for a transmission facility (i.e., the phase angle regulating transformers at Bunce Creek on the Michigan-Ontario border (the "ITC PARs")) selected in one transmission planning region's plan (MISO's) - and located in that region - to other planning regions (NYISO and PJM Interconnection, L.L.C. ("PJM")) without their consent. Order No. 1000 requires facility costs to be allocated solely within that transmission planning region unless an entity outside the region voluntarily agrees otherwise.² Order No. 1000 comports with prior judicial and Commission precedent that a Section 205 rate filing by a utility must be premised on a customer or other contractual relationship with the entities to which the rate will be charged. As explained by the U.S. Supreme Court, "[t]he regulatory system created by the Act is premised on contractual agreements voluntarily devised by the regulated companies..."3 If an entity is not seeking jurisdictional service as a customer from a utility under a contractual relationship, or if there is no other voluntary contractual agreement (such as an RTO agreement) by which charges

Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities, Order No. 1000 ("Order No. 1000"), 76 Fed. Reg. 49842 (Aug. 11, 2011), FERC Stats. & Regs. ¶ 31,323 (2011).

² *Id.* at P 657.

In re Permian Basin Area Rate Cases, 390 U.S. 747, 822 (1968) ("Permian Basin"). This case addressed rate filings under the Natural Gas Act. However, the "filing and rate-revision provisions of the Federal Power Act 'are in all material respects substantially identical to the equivalent provisions of the Natural Gas Act.' FPC v. Sierra Pac. Power Co., 350 U.S. 348, 353, 76 S. Ct. 368, 371-372, 100 L. Ed. 388, 394 (1956); see also Permian Basin Area Rate Cases (Continental Oil Co. v. FPC), supra note 36, 390 U.S. at 821, 88 S. Ct. at 1388, 20 L. Ed. 2d at 366; Richmond Power & Light v. FPC, 156 U.S. App. D.C. 315, 317, 481 F.2d 490, 492, cert. denied, 414 U.S. 1068, 94 S. Ct. 578, 38 L. Ed. 2d 473 (1973)." Cleveland v. Federal Power Comm'n, 525 F.2d 845, 855 (D.C. Cir. 1976).

can be assessed to an entity by a utility, application of the *Permian Basin* principle means that there is no authority under the Federal Power Act's ("FPA") "regulatory system" for a utility to file for collection of a rate from the unrelated entity, and no authority under which the Commission may accept such a filing.

The Commission should grant summary disposition for the NYISO because the MISO/ITC Filing violates the clearly articulated Commission policy that facility costs must be allocated within the same region as the facility unless another entity voluntarily agrees to be allocated a portion of the cost. In this case, none of the parties dispute that (1) the ITC PARs are located within Michigan, on the Michigan-Ontario border, (2) the ITC PARs do not border the NYISO region, (3) the NYISO is not a Market Participant, Transmission Customer or Coordination Customer of the MISO, and (4) the NYISO has not voluntarily agreed to assume any portion of the costs associated with the ITC PARs.

If the Commission does not grant the NYISO's motion to dismiss or motion for summary disposition, then, in the alternative, the NYISO requests expedited action on the pending rehearing requests in this proceeding, including the NYISO Rehearing Request. The NYISO Rehearing Request clearly outlined the Commission's lack of legal authority to accept a rate filing that imposes non-consensual charges on an entity that neither takes service from the filing party, nor has a relevant contractual relationship with the filing party. The NYISO and others submitted their rehearing requests over eleven months ago.

II. BACKGROUND

A. The MISO/ITC Filing in Docket No. ER11-1844-000

On October 20, 2010, the MISO and ITC submitted the MISO/ITC Filing under Section 205 of the FPA seeking to recover a portion of the costs incurred by ITC to install, operate and maintain the ITC PARs from the NYISO and PJM through unilateral changes to the MISO's own

tariff. Multiple parties - including NYISO, PJM, ISO New England, the New England Power Pool, the New York Transmission Owners, and the PJM Transmission Owners ("PJM TOS") - intervened and protested the MISO/ITC Filing on a wide variety of grounds.

The NYISO argued in its protest that none of the Commission and judicial orders cited in the MISO/ITC Filing authorized "ex post cost allocation to non-customers." As explained previously, the NYISO is not a Market Participant, ⁵ Transmission Customer or Coordination Customer of the MISO under the MISO's Open Access Transmission, Energy and Operating Reserve Tariff (the "MISO Tariff"). Additional protests argued that the Commission does not have the legal authority to accept a rate filing that assesses charges to entities that do not have a contractual relationship with the filing utility or otherwise do not take service from that utility. The PJM TOs Protest argued that the attempt to unilaterally assign costs to non-customers without their consent was inconsistent with existing Commission precedent, as enunciated in the

See Protest of the New York Independent System Operator, Inc., at 34 (filed November 17, 2010) (the "NYISO Protest").

The NYISO has not registered with, or been qualified by, the Midwest ISO as a Market Participant. *See* Midwest ISO Tariff at § 1.384.

The NYISO has not executed a transmission Service Agreement or requested the Midwest ISO to file with the Commission an unexecuted Service Agreement. See Midwest ISO Tariff at § 1.666.

The NYISO is not taking Coordination Services from the Midwest ISO under Module F of its tariff. *See* Midwest ISO Tariff at § 1.98.

See, e.g., Notice of Intervention and Protest of the Massachusetts Department of Public Utilities at 3-4; Motion to Intervene, Protest and Motion for Summary Rejection of New England Conference of Public Utilities Commissioners at 6-15; Motion to Intervene and Protest [of the] New England States Committee on Electricity at 2-5; Notice of Intervention and Protest of the Public Service Commission of the State of New York at 4; Motion to Intervene and Protest of the New York Transmission Owners and New York Municipal Power Agency at 4-5; Protest of PJM Interconnection, L.L.C. at 4-6; PJM Transmission Owners Group Protest to Rate Filing at 5-6 (the "PJM TOs Protest"); Motion to Intervene, Protest and Request for Summary Dismissal and Motion to Consolidate of the PSEG Companies at 7-9.

⁹ PJM TOs Protest at 13.

cost-allocation principles included in the then-pending NOPR issued June 17, 2010, which formed the basis for the Commission's subsequent Order No. 1000:

The allocation method for the cost of an intraregional facility must allocate costs solely within that transmission planning region unless another entity outside the region or another transmission planning region voluntarily agrees to assume a portion of those costs ¹⁰

On December 30, 2010 the Commission issued its *Order Accepting and Suspending Proposed Tariff Sheets and Establishing Hearing and Settlement Judge Procedures* ("December 30 Order") in response to the MISO/ITC Filing.¹¹ The Commission did not address any of the substantive legal challenges protesters raised regarding the fact that the Commission does not have the legal authority to allow public utilities to impose involuntarily incurred charges to noncustomers, or that such a proposal conflicts with Commission precedent. The December 30 Order simply accepted and suspended the MISO/ITC Filing, subject to refund, and set the proceeding for settlement judge and hearing procedures.

On January 21, 2011, the NYISO filed its timely rehearing request of the December 30 Order. The NYISO Rehearing Request sought review of one simple issue:

Whether Section 205 of the Federal Power Act permits the filing or acceptance of a rate filing where the filing utility does not have a contractual or customer relationship with the entities to which the rate will be charged. *See, e.g., In re Permian Basin Area Rate Cases*, 390 U.S. 747, 822 (1968); *Midwest Independent Transmission System Operator, Inc.*, Order on Initial Decision, 131 FERC ¶ 61,173 (2010); *Commonwealth Edison Co.*, 129 FERC ¶ 61,298 (2009).¹²

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Transmission Planning and Cost Allocation by Transmission Owners and Operating Public Utilities, Notice of Proposed Rulemaking ("Transmission NOPR"), 131 FERC ¶ 61,253 at P 154 (2010).

¹³³ FERC ¶ 61,275 (2010).

NYISO Rehearing Request at 5.

The NYISO Rehearing Request remains pending before the Commission, more than eleven months after it was filed.

B. Settlement Efforts in Accordance with the December 30 Order

The parties have spent over nine months engaged in good-faith settlement efforts with the assistance of Judge Dring as settlement judge and FERC Trial Staff. The participants met in Washington, DC for more than half a dozen face-to-face settlement conferences, in addition to engaging in numerous e-mail exchanges and teleconferences discussing various settlement options.

During the settlement negotiations, parties also discussed reliability and operational concerns related to the presidential permit that MISO must obtain from the U.S. Department of Energy ("DOE") before placing the ITC PARs into service. Several parties, including the NYISO, filed comments with DOE raising concerns about ITC's revised presidential permit application. During the DOE comment period the NYISO worked with MISO, ITC, and the Independent Electricity System Operator of Ontario ("IESO") to resolve the NYISO's most pressing and imminent reliability concerns related to the physical operation of the PARs at the Ontario/Michigan interface and the appropriate representation of those PARs in the North American Electric Reliability Corporation's Interchange Distribution calculator. PJM and its transmission owners worked separately with MISO and ITC to resolve their concerns related to the operation of the PARs at the Ontario/Michigan interface and presented a proposed settlement to the DOE. The DOE, therefore, might issue the presidential permit imminently, allowing MISO to place the ITC PARs into service. Shortly after MISO and ITC place the facilities into service, they will begin to invoice the NYISO and PJM in accordance with the MISO/ITC Filing that the Commission permitted to become effective, subject to refund, in its December 30 Order.

Unfortunately, the Commission settlement process appears to have stalled without resolution of the cost allocation issues raised by the MISO/ITC Filing. The parties have not reached a settlement after more than nine months of extensive, good-faith negotiations. As a result, the NYISO and PJM may be billed by MISO for the costs allocated to them by MISO and ITC for the ITC PARs - before the Commission has ruled on the NYISO Rehearing Request to determine whether the MISO/ITC Filing conflicts with the FPA or Commission policy. Absent further direction from the Commission, the NYISO has no authority under its Tariffs¹³ to recover the cost of ITC's PARs from its stakeholders.

III. MOTION TO DISMISS MISO/ITC FILING

Pursuant to Rule 212, the NYISO hereby moves to dismiss the MISO/ITC Filing.

The MISO/ITC Filing and the Commission's December 30 Order directly contradict the policy proposed in the Transmission NOPR and adopted in Order No. 1000 for regional cost allocation. On July 21, 2011, the Commission issued Order No. 1000 to achieve two primary objectives:

(1) ensure that transmission planning processes at the regional level consider and evaluate, on a non-discriminatory basis, possible transmission alternatives and produce a transmission plan that can meet transmission needs more efficiently and cost-effectively; and (2) ensure that the costs of transmission solutions chosen to meet regional transmission needs are allocated fairly to those who receive benefits from them.¹⁴

Order No. 1000 states that a transmission provider cannot assign transmission costs to another non-consenting transmission planning region, even if that region derives some form of

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Capitalized terms that are not otherwise defined herein shall have the meaning specified in the Services Tariff or the NYISO's Open Access Transmission Tariff ("OATT") (collectively "Tariffs").

Order No. 1000 at P 4.

benefit from the facility. The Commission presented this doctrine as "Regional Cost Allocation Principle 4":

The allocation method for the cost of a transmission facility selected in a regional transmission plan must allocate costs solely within that transmission planning region unless another entity outside the region or another transmission planning region voluntarily agrees to assume a portion of those costs.¹⁵

As noted above, this same principle was proposed in the Transmission NOPR before the issuance of the December 30 Order.

The MISO/ITC Filing is directly and unambiguously inconsistent with Regional Cost Allocation Principle 4 described in Order No. 1000 because it proposes to unilaterally allocate costs incurred for a transmission facility selected in MISO's transmission plan, and located in that region, to the NYISO and PJM without their consent. ITC's PARs are located in the MISO region, not in the NYISO region. IESO's service territory lies between NYISO and the ITC PARs. The NYISO has not - in the words of Regional Cost Allocation Principle 4 - "voluntarily agree[d] to assume a portion of the costs" ITC has incurred for the ITC PARs. The Commission should dismiss the MISO/ITC Filing as inconsistent with the policy that the Commission announced in Order No. 1000's Regional Cost Allocation Principle 4.

The Commission's adoption of Regional Cost Allocation Principle 4 is aligned with prior Commission precedent. "The Commission has consistently rejected unilateral filings by single utilities proposing to impose charges, terms and conditions on a neighboring utility that, according to the filing utility, is responsible for loop flows." Commission precedent has

¹⁵ *Id.* at P 657.

See Southern California Edison Company, 70 FERC ¶ 61,087, p. 61,250 (1995) ("WSCC"), subsequent order approving loop flow plan, 73 FERC ¶ 61,219 (1995). In WSCC, the Commission also stated "The Commission's policy is that owners and controllers of interstate (continued...)

recognized that the Commission's rate-related authority under the FPA is premised on the existence of contractual relationships between a utility and its customers, and rejected rate filings that contravene this basic principle. Consistent with the contractual context of FPA regulation, the Commission has included customer-specific agreements in its *pro forma* tariffs. As recently as May 2010,¹⁷ the Commission reversed a finding of an initial ALJ decision that the MISO could collect the Seams Elimination Charge/Cost Adjustment/Assignment transmission-related charges from a retail load-serving entity that was not a MISO transmission customer or market participant.¹⁸

As explained by the D.C. Circuit, an agency must provide "a reasoned explanation for departing from precedent or treating similar situations differently," and "the court looks only to the reasons given by the agency" in its underlying orders.¹⁹ The Commission did not explain in its December 30 Order or in Order No. 1000 why it would treat the MISO/ITC Filing differently than Commission policy that was proposed in the Transmission NOPR²⁰ - which predated the

(...continued)

transmission facilities attempt to resolve loop flow issues on a consensual, regional basis." *Id.* at 61,241-2. In that context, *WSCC* referred to the Commission's seminal Transmission Pricing Policy Statement, which in turn made clear that loop flow cost allocation in a broader interregional context is based on consent: "Of course, such individual utility pricing may be appropriate if there are no objections to the loop flow solution from any affected neighboring utilities or transmission customers." *See* Policy Statement, *Inquiry Concerning the Commission's Pricing Policy for Transmission Services Provided by Public Utilities Under the Federal Power Act*, 59 Fed. Reg. 55031 at p. 55037, n.35 (November 3, 1994).

See Midwest Independent Transmission System Operator, Inc., Order on Initial Decision, 131 FERC ¶ 61,173 (2010) ("Green Mountain").

Transmission service had been made available to Green Mountain by its affiliate, BP Energy, a MISO transmission customer.

¹⁹ *ANR Pipeline Co. v. FERC*, 71 F.3d 897, 901 (D.C. Cir. 1995).

Transmission NOPR (which stated that costs for facilities must be allocated solely within that transmission planning region unless another entity outside that region voluntarily agreed to assume a portion of the costs).

December 30 Order - and eventually adopted in Order No. 1000, which was issued after the December 30 Order. Any order the Commission issues following a hearing in this proceeding must explain why it accepted the MISO/ITC Filing despite the inconsistency between the December 30 Order and Regional Cost Allocation Principle 4, which was being developed at the same time. "Indeed, where an agency departs from established precedent without a reasoned explanation, its decision *will be vacated* as arbitrary and capricious." The NYISO submits that no valid justification exists for permitting ITC to recover the cost of the ITC PARs from the NYISO's customers. 22

For these reasons, the Commission should promptly dismiss the MISO/ITC Filing.

IV. MOTION FOR SUMMARY DISPOSITION

In the alternative to the motion to dismiss, pursuant to Rule 217, the NYISO moves for summary disposition of the MISO/ITC Filing. As the Commission and the courts have determined, the Commission should grant summary disposition "where the facts are not in dispute and the new tariff contravenes valid and explicit [Commission] regulations or policy."²³ The MISO/ITC Filing directly contravenes Commission policy, including and especially the newly issued Order No. 1000. The ITC PARs are located within Michigan on the Michigan-Ontario border, hundreds of miles from the NYISO region. The NYISO has not agreed to assume any of the costs of the ITC PARs, as the motion to dismiss in Section III above makes

²¹ ANR Pipeline Co. v. FERC. (emphasis added) (citations omitted).

See MISO proposed Rate Schedule 36, Tab A to the October 20, 2010 filing.

ANR Pipeline Co., 66 FERC ¶ 61,335, at 62,100 (1994) (emphasis added), (quoting United Gas Pipe Line Co. v. FPC, 551 F.2d 460, 463 (D.C. Cir. 1977)); see also Entergy Servs., Inc., 74 FERC ¶ 61,137 (1996) ("We will grant this request for summary disposition. Nothing in our Transmission Pricing Policy Statement or orders on this subject supports Entergy's position that postage stamp 'and' pricing is prohibited only for point-to-point service and is permitted for network transmission service.").

clear. The NYISO is not a Market Participant, Transmission Customer or Coordination

Customer of the MISO under the MISO Tariff. In light of these uncontested facts, there is no basis for requiring the parties to expend resources in a lengthy discovery process and hearing to develop an irrelevant factual record. The MISO/ITC Filing undisputedly conflicts with

Commission Policy, including Order No. 1000. The Commission should promptly grant the NYISO's request for summary disposition of the MISO/ITC Filing.

V. RATIONALE FOR EXPEDITED CONSIDERATION OF THE FOREGOING MOTIONS

The NYISO asks the Commission to act on this motion to dismiss or for summary disposition before any formal hearing procedures commence, and on an expedited basis, for multiple reasons.

First, the Commission issued Order No. 1000 on July 21, 2010 articulating a clear policy on interregional cost allocation that is inconsistent with the December 30 Order. Assuming any uncertainty existed with regard to the Commission's policy on interregional cost allocation when the Commission issued the December 30 Order, Order No. 1000 removed it. The Commission should now reconsider the December 30 Order in light of Order No. 1000.

Second, when the Commission issued Order No. 1000, the parties were actively engaged in settlement negotiations. The NYISO continues to participate in those negotiations in good faith; however, the settlement process appears to have stalled without resolution of the cost allocation issues raised by the MISO/ITC Filing. Given the amount of time the parties have spent negotiating without achieving an agreement, the NYISO believes it is now unlikely that the parties will reach an agreement to resolve this proceeding. This change in circumstances makes it appropriate for the Commission to now reconsider the December 30 Order. Discovery, testimony preparation, and hearing procedures will require the expenditure of significant time,

money, and resources for the NYISO, other participants, and the Commission over a cost allocation proposal that clearly and unambiguously contravenes the Commission policy enunciated in Order No. 1000.

Third, MISO and ITC are expected to place the ITC PARs into service in the very near future, when DOE issues the presidential permit providing MISO and ITC the legal authority to operate them. Shortly after the ITC PARs commence operation, MISO will invoice the NYISO for the facilities. MISO's proposed Rate Schedule 36 makes clear that the MISO is billing the NYISO "on behalf of its customers." However, the NYISO has no mechanism in its Tariffs to recover charges for the cost of ITC's PARs from its customers. The NYISO is a not-for-profit corporation. The only money the NYISO has to pay its bills is the money its Tariffs authorize the NYISO to recover from its customers. It would be inappropriate for the Commission to permit the MISO to charge the NYISO for ITC's PARs when the NYISO has no ability to recover such charges from its customers. In order to avoid this inappropriate result the Commission should grant the NYISO's motion to dismiss, or grant the NYISO's motion for summary disposition, or expeditiously rule on the rehearing requests pending in this proceeding. If the Commission determines that the NYISO should be required to pay the charges it receives from MISO for ITC's PARs, then the Commission will need to provide the necessary authority for the NYISO to recover such charges from its customers.

VI. MOTION FOR EXPEDITED CONSIDERATION OF PENDING REHEARING REQUESTS, INCLUDING NYISO'S

If the Commission does not grant the NYISO's motion to dismiss or motion for summary disposition, then, in the alternative, the NYISO requests expedited consideration of the pending

²⁴ See Attachment A to the MISO's October 20, 2010 application in Docket No. ER11-1844-000.

rehearing requests, including the NYISO Rehearing Request. The NYISO requested rehearing more than eleven months ago of the following issue from the December 30 Order:

Whether Section 205 of the Federal Power Act permits the filing or acceptance of a rate filing where the filing utility does not have a contractual or customer relationship with the entities to which the rate will be charged. See, e.g., In re Permian Basin Area Rate Cases, 390 U.S. 747, 822 (1968); Midwest Independent Transmission System Operator, Inc., Order on Initial Decision, 131 FERC ¶ 61,173 (2010); Commonwealth Edison Co., 129 FERC ¶ 61,298 (2009).²⁵

The NYISO Rehearing Request explained how "[j]udicial and Commission precedent dictate that a Section 205 rate filing by a utility must be premised on a customer or other contractual relationship with the entities to which the rate will be charged." It also cited U.S. Supreme Court precedent for "the principle that '[t]he regulatory system created by the Act is premised on contractual agreements voluntarily devised by the regulated companies...." The NYISO Rehearing Request also pointed out how none of the court or Commission decisions cited in the MISO/ITC Filing provided supporting authority for a public utility to file tariff revisions that apply to non-customers. Furthermore, the NYISO Rehearing Request raised policy considerations against allowing MISO and ITC to charge the NYISO because it would lead to an inundation of filings by utilities seeking to shift transmission facility costs to purported "benefits" bestowed on neighboring systems, resulting in "[a] multitude of highly complex cost

NYISO Rehearing Request at 5.

²⁶ *Id.* at 6.

Id. (quoting In re Permian Basin Area Rate Cases, 390 U.S. 747, 822 (1968)).

²⁸ *Id.* at 10-11.

allocation proceedings [that] will severely tax the resources of the regulators and the regulated alike, but will result in no net societal gain."²⁹

The NYISO asks the Commission to address these legal issues - and the legal and policy issues presented in the other pending rehearing requests - before the participants and the Commission waste significant time, money, and resources in a lengthy hearing process.

VII. CONCLUSION

For the foregoing reasons, the NYISO requests that the Commission dismiss or grant summary disposition of the MISO/ITC Filing, or in the alternative, issue an expeditious ruling on the pending rehearing requests.

Respectfully submitted,

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

/s/ James H. Sweeney

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/s/ Howard H. Shafferman

Howard H. Shafferman Daniel R. Simon Ballard Spahr LLP Counsel to the New York Independent System Operator, Inc.

Dated: December 13, 2011

²⁹ *Id.* at 12.

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. §385.2010.

Dated at Rensselaer, NY this 13th day of December, 2011

/s/ Mohsana Akter

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