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US Transmission Planning and Cost Allocation

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US Electric Transmission System

- **"The Grid" consists of 160,000 miles of high-voltage power lines, millions of low-voltage power lines, and distribution transformers that deliver power to 145 million customers from more than 7,300 generation sources.**

- **70% of transmission lines and power transformers are over 25 years old.**

- **Transmission siting at the retail/distribution level is regulated by State Commissions; regional transmission planning and cost allocation is regulated by FERC.**

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Cost Allocation

- **The transmission system in the United States requires over $300 billion in transmission upgrades between 2010 and 2030 in order to meet growing demand for electric services.**

- **Public utility transmission providers construct new transmission facilities when they have regulatory certainty regarding recoupment of costs.**

- **Need buy-in from numerous stakeholders, including state governments, consumers, property owners and public utilities.**

Legal Authority for Transmission Planning and Cost Allocation

Section 206 of the Federal Power Act:

Whenever the Federal Energy Regulatory Commission . . . shall find that any rate, charge, or classification . . . collected by any public utility . . . or that any rule, regulation, *practice* . . . is unjust, unreasonable, unduly discriminatory or preferential, the Commission shall determine the just and reasonable rate, charge, classification, rule, regulation, practice, or contract.

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Core Concepts

- **Legal framework establishes the *process* for making transmission planning and cost allocation policy. But it does not dictate outcomes.**

- **Stakeholders in the transmission planning and cost allocation *process* must identify the *benefits* of new transmission projects.**

- **“Beneficiary Pays” versus “Socialization”**

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Basic Ratemaking Tenet

- **<u>Cost-Causation Principle</u>: Commission-sanctioned just and reasonable rates must "reflect to some degree the costs actually caused by the customer who must pay them."**

- **Benefits a consumer realizes must be <u>*roughly commensurate*</u> with the costs it is assessed.**

"Beneficiaries Pay" or "Socialize"?

- **Beneficiaries Pay for New Transmission**
  - **Parties that benefit from new transmission should pay the costs of upgrading or building new transmission infrastructure.**

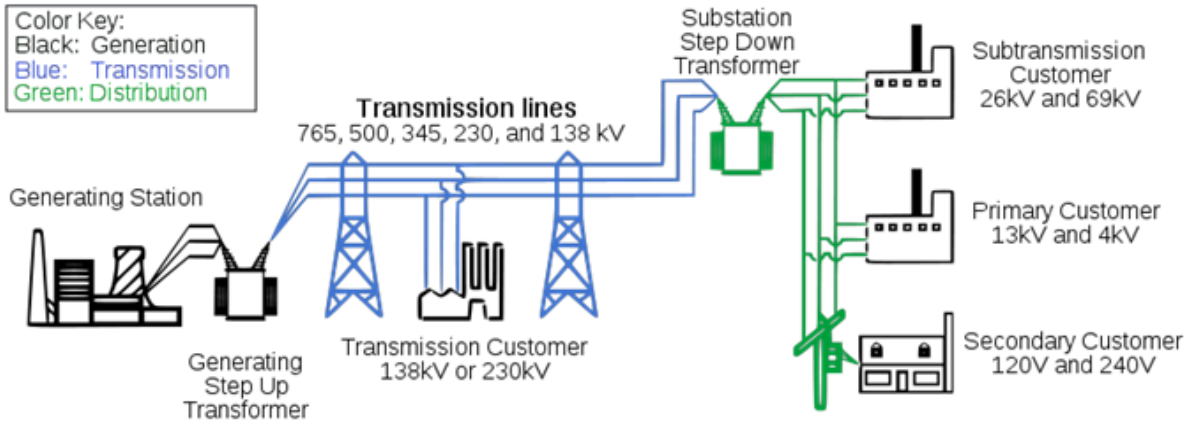
- **Socialize Cost for New Transmission**
  - **Spread the costs of new transmission projects across all parties connected to the transmission system.**

Regulatory Milestones

- **Traditional Regulatory Compact**
- **Order No. 888: Open Access Era**
- **Order No. 890: Transmission Planning Processes**
- **Order No. 1000: Transmission Planning & Cost Allocation**

Traditional Regulatory Compact

- **Vertically integrated utilities controlled generation, transmission, and distribution**



- **Bundled rates**

Open Access Era

- Public Utilities Regulatory Policies Act (PURPA) (1978)
  - Qualifying Facilities (QFs) and Independent Power Producers (IPPs)
- Energy Policy Act (EPAct) (1992)
  - New types of generation permitted to sell into market.
- Order Nos. 888 and 889 (1996)
  - Publish separate rate schedules for generation and transmission
  - Functionally unbundle transmission and generation.
  - New market participants could transmit electricity on a non-discriminatory basis across transmission systems owned by other utilities.
- Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs)
  - Operate markets and plan transmission expansion.

Transmission Planning Processes

Order No. 890 (2001)

- **FERC recognized that transmission providers still had "a disincentive to remedy transmission congestion when doing so reduces the value of their generation or otherwise stimulates new entry or greater competition in their area."**
- **SOLUTION: require transmission providers to participate in transparent planning processes.**
- **Applied to all public utility transmission providers and RTOs/ISOs.**
- **Reciprocity dictates that non-public utility transmission providers that take advantage of open access due to improved planning should also participate in planning processes.**

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Order No. 890 Transmission Planning Processes Must Satisfy Nine Principles

1. Coordination
2. Openness
3. Transparency
4. Information Exchange
5. Comparability
6. Dispute Resolution
7. Regional Participation
8. Economic Planning Studies
9. Cost Allocation for New Projects*

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FERC Order 890
Cost Allocation Principles

1. **Transmission costs must be fairly assigned based on who caused them to be incurred and who benefited from them.**

2. **Cost allocation should provide incentives for transmission investment.**

3. **A region's cost allocation proposal should be supported by state regulators and other market participants.**

By 2009, most public utility transmission providers submitted compliance filings describing their proposed transmission planning processes in accordance with Order No. 890.

Transmission Planning & Cost Allocation

Order No. 1000 (2011)

- **Expanded on Order No. 890's planning & cost allocation principles**
- **Emphasized the nexus between transmission planning and cost allocation**
- **Identified a need for more *ex ante* cost allocation methods that clearly identify the beneficiaries of proposed *regional* and *interregional* transmission facilities in order to spur construction of transmission projects**

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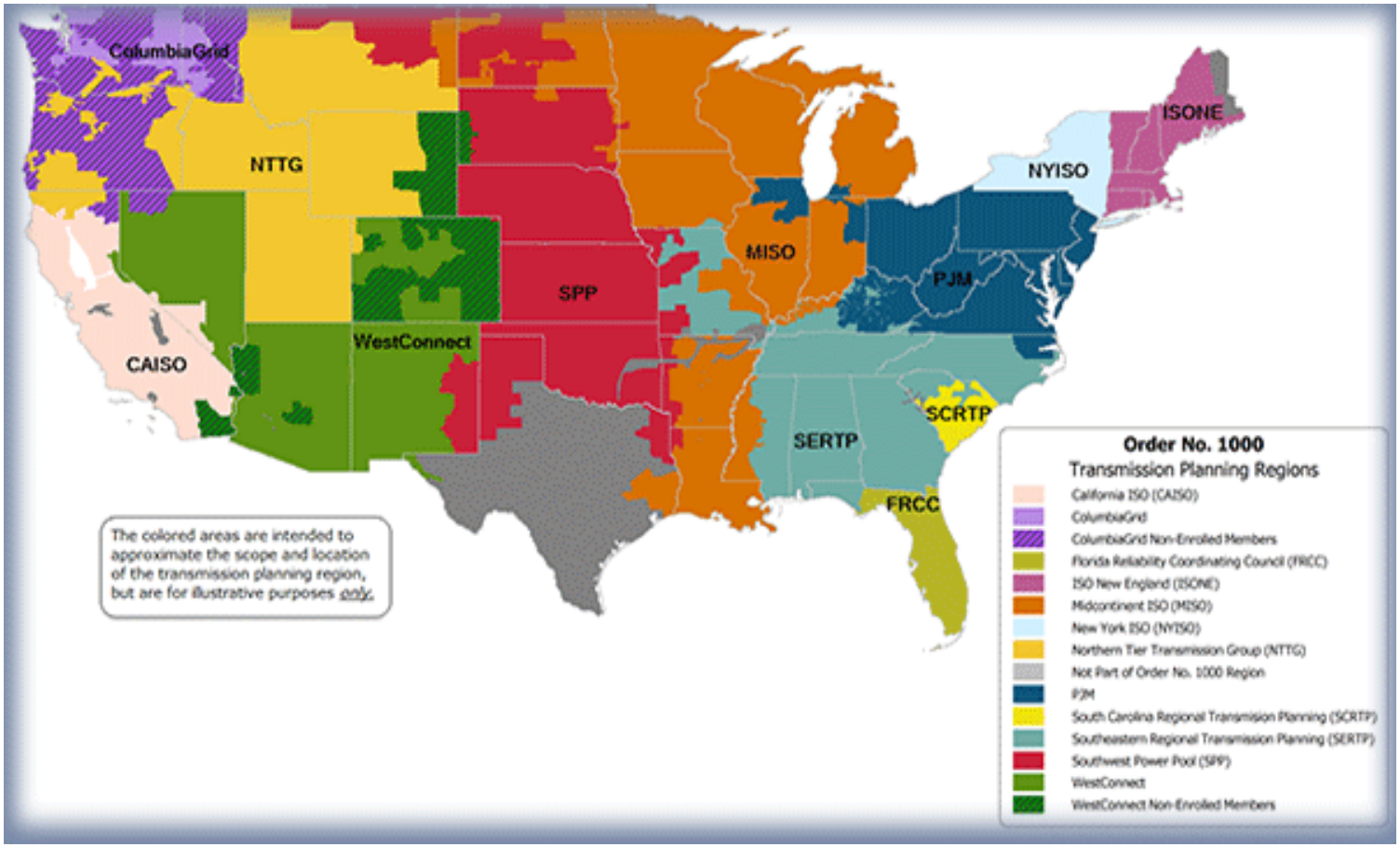
FERC Order 1000
Transmission Planning Regions



FERC Order 1000
Planning Process Requirements

1. **Transmission providers must participate in *regional* transmission planning processes that:**
   - **Produce regional transmission plans**
   - **Consider regional cost allocation for new transmission facilities selected in regional transmission plans**
   - **Consider interregional cost allocation method for new transmission facilities in neighboring transmission planning regions.**

2. **Planning processes must also consider public policy requirements.**

3. **Planning regions also must engage in *interregional* planning processes.**

FERC Order 1000 Key Requirements for Cost Allocation

- **Regional planning processes must develop regional cost allocation policies.**
  - **Must satisfy 6 *regional* cost allocation principles**
- **Neighboring regions must develop interregional cost allocation policies.**
  - **Must satisfy 6 *interregional* cost allocation principles**
- **Costs must be *roughly commensurate* with benefits.**

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FERC Order 1000
Six Regional/Interregional Cost Allocation Principles

1. Allocate costs ***roughly commensurate*** with benefits.
2. No involuntary allocation of costs to non-beneficiaries.
3. Benefit-to-cost threshold ratio must be reasonable.
4. Allocate costs within transmission planning regions.
5. Method for determining benefits and identifying beneficiaries must be transparent.
6. Different methods for different types of facilities.

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Key Takeaways

- **Though challenging at times, there are many benefits from regional transmission planning and cost allocation.**
- **In order for large, capital intensive projects to be constructed, support is needed from a number of stakeholders.**
- **Can be used to support renewables and technological innovation.**

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