Transmission Cost Allocation and "Beneficiary Pays"

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Obligatory Disclaimer

Any views expressed in this presentation are my own, and do not necessarily represent the views of the Federal Energy Regulatory Commission, the Chairman or individual Commissioners, or the United States Government.

Guiding Principles for Cost Allocation

- Cost causation: "[A]ll approved rates [must] reflect to some degree the costs actually caused by the customer who must pay them."
  - Assessed by "comparing the costs assessed against a party to the burdens imposed or benefits drawn by that party"
- Beneficiary pays is another expression of this principle
  - "To the extent a [customer] benefits from the costs of new facilities, it can be said to have 'caused' a part of those costs to be incurred, as without the expectation of its contributions the facilities might not have been built, or might have been delayed."
- Allocations do not have to be calculated "to the last penny" or even last million; must be "roughly commensurate" with benefits

A Bit of History . . .

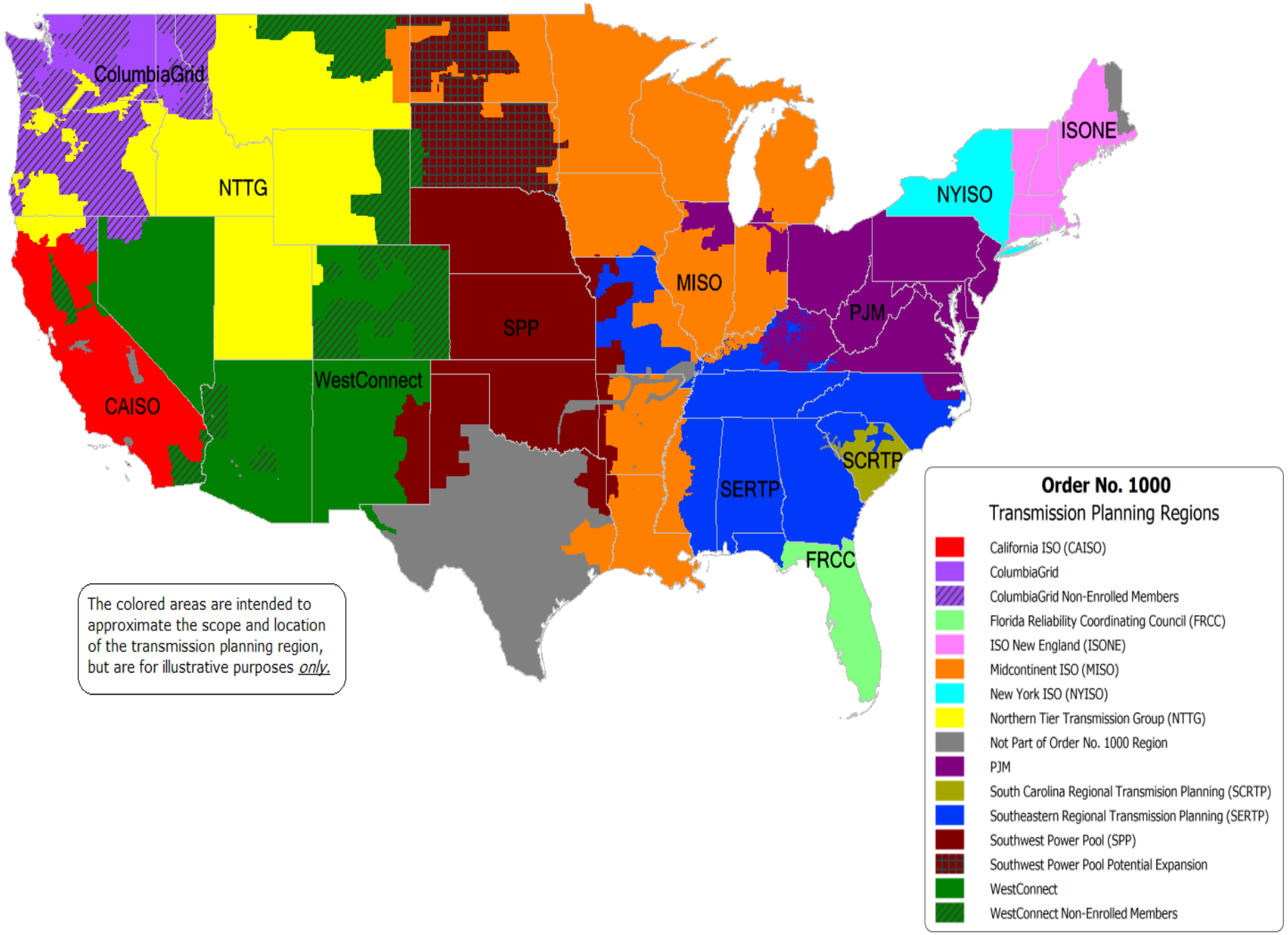
- For decades, transmission was developed in response to utility-by-utility needs to serve their own customers
  - Industry was vertically-integrated; transmission was planned and built by utility to move *its* generation to its load, or to move energy purchased from another vertically-integrated utility to its load
  - Costs were embedded in bundled rates to customers, or incrementally assigned to users of the system
- Post-"Open Access" reforms (1996): Utilities have obligation to expand to satisfy requests for service
  - Customer pays upgrade costs necessary to support requests for service
  - Other upgrades to network generally presumed to benefit all users and rolled-in

FERC Identified Shortcomings of "Participant Funding"

- Industry changes resulted in broader regional networks and power markets
  - Created need for larger transmission facilities crossing multiple RTOs/ISOs, states, utilities, etc.
  - Greater resource utilization results in broader diffusion of benefits
  - More difficult to identify (or presume) benefits in a larger network
- "Free rider" problems
  - When multiple parties benefit from transmission, each party has an incentive to wait to invest in hopes that one or more other beneficiaries value the transmission enough to pay for it
  - Needed transmission development can thus be delayed

Order No. 1000 Framework

- Regional transmission planning requirements
  - Utilities must participate in a regional planning process that is open and transparent, with opportunities for all stakeholders to submit potential transmission needs for consideration
  - Reliability, economic, and policy-driven needs are all considered
- Linked regional planning with regional cost allocation
  - Benefits of projects are assessed in planning process
  - Regions must put cost allocation mechanisms in place up front, to provide greater up-front certainty in that process
  - Cost allocation mechanisms must satisfy six broad principles – otherwise, regions develop their own mechanisms to fit their own needs
  - All regions don't need to consider the same benefits, but cost allocation mechanisms must capture a sufficient range of benefits


ColumbiaGrid
NTTG
CAISO
WestConnect
SPP
MISO
PJM
NYISO
ISONE
SCRTP
SERTP
FRCC
The colored areas are intended to approximate the scope and location of the transmission planning region, but are for illustrative purposes only.
Order No. 1000
Transmission Planning Regions
California ISO (CAISO)
ColumbiaGrid
ColumbiaGrid Non-Enrolled Members
Florida Reliability Coordinating Council (FRCC)
ISO New England (ISONE)
Midcontinent ISO (MISO)
New York ISO (NYISO)
Northern Tier Transmission Group (NTTG)
Not Part of Order No. 1000 Region
PJM
South Carolina Regional Transmision Planning (SCRTP)
Southeastern Regional Transmission Planning (SERTP)
Southwest Power Pool (SPP)
Southwest Power Pool Potential Expansion
WestConnect
WestConnect Non-Enrolled Members

What Kinds of Benefits are Considered?

- Production cost savings
- Reduced load energy payments
- Reduced reserve requirements
- Reduced energy losses
- Avoided project costs
- Value of increased transfer capability
- Improved reliability
- Facilitating compliance with public policy requirements
- Improved access to generation resources

Examples of Approved Cost Allocation Mechanisms

- Load ratio share across entire network
  - Midcontinent Independent System Operator: Multi-Value Projects
- Proportional share based on each party's share of total quantified benefits
  - For example, share of quantified production cost savings, reduced losses, avoided project costs, etc.
- Costs assigned to zones based on load-flow analysis
  - PJM Interconnection, LLC
- Hybrid combinations of the above
  - PJM Interconnection, LLC

Other Frameworks for Transmission Development

- Participant Funding
  - Still available, but may not be sole method of regional cost allocation
  - May still request service and pay for upgrades necessary to support it
- "Merchant" Transmission Development
  - Alternative to requesting service and associated expansion or proposing a project for regional cost allocation in the regional planning process
  - Developer takes all the risk, with no cost allocation to captive customers
  - Developer may negotiate directly with individual customers and reserve capacity for them, subject to open solicitation and transparency requirements
- Generator Lead Lines
  - FERC has waived certain open access requirements to allow some entities to build lead lines and reserve capacity for their own use; proposing more formal process

Thanks!

Questions?

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