

---

# Transmission Cost Allocation: FERC's Proposed Rulemaking

Harvard Electricity Policy Group

September 30, 2010

Tamara Linde

Vice President - Regulatory

PSEG



# PSEG

- Public Service Enterprise Group, Inc. (PSEG) is a publicly traded, diversified energy company with annual revenues of more than \$12 billion.
  - New Jersey's oldest and largest regulated electric and gas delivery utility, providing service to 2.1 million electric customers and 1.7 million gas customers.
  - Transmission owner in the PJM region.
  - One of the largest independent power producers in the U.S., with a portfolio that includes approximately 16,000 megawatts of generating capacity.
  - Portfolio of both utility and non-utility solar investments and development efforts underway to build 350 MWs of off-shore wind.
- For the past two years, PSEG has been named to the Dow Jones Sustainability Index (DJSI – North America) and Carbon Disclosure Leadership Index (CDLI).
- PSE&G was named for the fourth time as America's most reliable electric utility, by receiving the prestigious National Reliability Excellence Award from the industry benchmarking group, PA Consulting
- Reflecting our strong history of environmental leadership, PSEG has pursued a low-carbon business strategy for over 15 years.



# FERC's Notice of Proposed Rulemaking (NOPR) - Transmission Planning and Cost Allocation

---

- Issued June 17, 2010.
- First round of comments filed September 29, 2010.
- After final rule is promulgated:
  - Regional compliance filings due in 6 months.
  - Interregional compliance filings due in 12 months.
- Likely to be a long process.

# Purpose of the NOPR



- The NOPR sets forth proposed rule changes in three areas:
  - (1) How transmission is planned;
  - (2) Which entities will build transmission; and
  - (3) How the costs of new transmission are allocated.
- The Commission cites to its statutory duty “to ensure that Commission-jurisdictional services are provided on a basis that is just, reasonable and not unduly discriminatory or preferential” as the basis for its rule proposal. NOPR pg 1.

# What the NOPR does not provide for:

---

- Interconnection wide transmission planning.
- Top down transmission planning.
- New rules for generator interconnections.
- One size fits all cost allocation.
- Mandated socialization of transmission costs.
- Cost allocation for existing transmission.

# Proposed Changes to Transmission Planning

---

- How local and regional transmission planning processes account for transmission needs driven by public policy requirements;
- How neighboring regions coordinate transmission planning with respect to interregional facilities; and
- Whether FERC approved tariffs may provide for a right of first refusal for incumbent transmission owners to build new transmission.

# Key Themes

---

- A close relationship between transmission planning and cost allocation.
- Regional transmission planning should reflect policy requirements, and may reflect policy goals.
- While voluntary arrangements for cost allocation remain acceptable; cost allocation must follow principles of cost causation.
- FERC emphasizes that it has always followed these principles, but finds that developments in the electric industry have caused a need for reform to ensure that statutory mandate is satisfied.

## Have changes in the industry really caused existing cost allocation methods to be unjust and unreasonable?

---

- Changes in the industry:
  - Transmission planning regions are broader.
  - Mandatory reliability standards are applied regionally.
  - State imposed RPS obligations.
  - Significant transmission capital spending.
    - EEI estimates there will be \$9.7 billion in new transmission investment in 2010 and over \$11 billion in 2011, almost doubling annual investment since 2004.
- In many respects things remain the same.
  - Congress has not adopted RPS or cap and trade.
  - Resource decisions continue to be made locally.
  - States continue to have a strong role in energy policy.
  - Supply resource choices reflect existing environmental policies.
- In many regions, existing methods for allocating transmission costs already properly account for benefits.

# How does the NOPR propose to better align transmission planning with cost allocation?

---

- Requirement to include cost allocation method up front in planning process  
NOPR P. 159:
  - Where a transmission planning process selects a facility in order to achieve a specific purpose or purposes, the planning process identifies beneficiaries either explicitly or implicitly. NOPR P. 156-159.
  - A transparent transmission planning process is the appropriate forum to identify these beneficiaries and the relative benefits that they receive. NOPR P. 158.
- Two important components of this proposal:
  - Recognition that the planning process itself defines beneficiaries when transmission projects are being planned:
    - Reliability.
    - Economic.
    - Public Policy.
  - Ex-ante transmission cost allocation offers much needed certainty.

## Different allocation methodologies for different types of projects.

---

- The NOPR provides that a planning entity would be permitted to distinguish or not distinguish between types of projects in its cost allocation methodology.
  - e.g. methodology may distinguish among facilities that are driven by reliability, relieving congestion, or achieving public policy. NOPR P. 160.
- NOPR requires that each such entity include all three types of transmission planning process and provide for a means to allocate the costs to beneficiaries.
- Interregional transmission planning

# Transmission Planning for Generator Interconnections

---

- Perhaps the simplest cost allocation challenge.
- Generators connecting to the grid choose where and when to connect.
- Cost causation principles dictate that they pay the “but for” costs of their choices.

# Deference to Consensus and Voluntarily Assumption.

---

- NOPR provides deference to cost allocation reached by consensus, but where consensus cannot be reached the Commission will use the record in the relevant compliance filing to develop a methodology. NOPR P. 163.
- Transmission developers and customers may still voluntarily assume costs of a new project. NOPR P. 168.
- Questions –
  - Will the Commission accept any cost allocation if there is consensus – even when it does not meet the just and reasonableness standard?
  - How will consensus be defined? Typically RTO stakeholder processes do not require unanimous decisions.
  - Should there a voting process established for transmission projects that are not needed for reliability?

# Principles for intraregional cost allocation

---

- The NOPR sets forth principles against which future compliance filings would be measured:
  - Costs must be allocated to those within the region that benefit from the project.
  - Allocations must be at least roughly commensurate with estimated benefits.
  - Those that receive no benefit from a project, either at present or in a likely future scenario, must not be involuntarily allocated costs.
  - If a benefit to cost threshold is used it must not be so high that facilities with significant positive net benefits are excluded from cost allocation, Threshold may not exceed 1.25 percent without justification.
  - Cost allocation method and data requirements for determining benefits and beneficiaries must be transparent.
  - Cost allocation method must be set out clearly and explained in detail.

NOPR P. 164.

# Measuring benefits.

---

- The Commission acknowledges that identifying which types of benefits are relevant for cost allocation and which entities are receiving those benefits and at what level – can be difficult and controversial. NOPR P. 158.
- Applying the Seventh circuit standard, the NOPR identifies certain benefits that may be considered including:
  - Reliability
  - Reserves
  - Production costs savings
  - Congestion relief
  - public policy requirement
- Implementation issues:
  - How far out should benefits be measured?
  - Who decides what social policies are beneficial?
  - Who decides the priority of one policy over another?
    - State A's goal – increase coal use
    - State B's goal – increase reliance on renewable power.
    - When a line meets both goals by enabling coal usage during the day and wind resources off-peak, should both goals be included in measurement?

# Will the NOPR Result in Usurping State Authority?

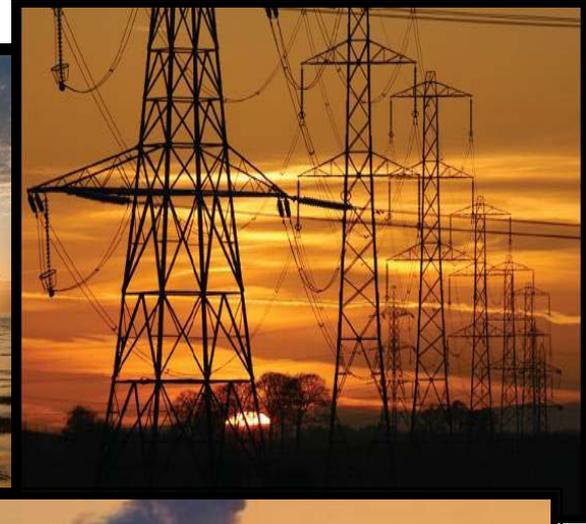
---

- Potentially.
- The manner in which regional planning processes address federal and state policy requirements is critical.
  - When requirements are included in transmission plans, there needs to be a recognition of how states, load-serving entities and other retail suppliers expect to meet those requirements. However, the NOPR could be read to leave this decision to the region which could end up looking more like IRP. NOPR P. 63 and 64.
- Planning speculative transmission projects.

# Looking forward: rationale transmission planning plus beneficiary pays cost allocation.

---

- No one likes power lines. But whether we choose clean nuclear power, renewable power or other power source, we need them to keep the lights on.
- The drive to build transmission needs to be done in a rational way that ensures that the right transmission is built in the right places and costs are kept to a minimum.
- Transmission is part of the solution for unleashing the potential of renewable power, but it is not a “silver bullet.” Questions of how much, where to build, and who should pay for it must be carefully considered.



# Appendix

---

- EEI transmission spending estimates. Edison Electric Institute, with assistance from Navigant Consulting, Inc., Transmission Projects at a Glance, February 2010, p. iv., <http://www.eei.org/ourissues/ElectricityTransmission/Pages/TransmissionProjectsAt.aspx>
- The Role of Transmission In A Clean Energy Economy - [http://www.pseg.com/info/media/thought\\_leader/grid.jsp](http://www.pseg.com/info/media/thought_leader/grid.jsp)
- PSEG filed written comments to the NOPR with the FERC both individually, as well as part of coalitions.
- PSEG is a member of the Coalition for Fair Transmission Policy a group of 11 geographically and structurally diverse investor-owned electric utilities that has been formed to support legislative and regulatory policies that will lead to customer-focused development of the nation's electric transmission systems and clean generation resources.