

# Transmission Investment: Competitive Market Platform or Regulation Trojan Horse?

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# A NATIONAL PERSPECTIVE

## On Allocating the Costs of New Transmission Investment: Practice and Principles



A White Paper Prepared by  
The Blue Ribbon Panel on Cost Allocation

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# Context

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A. FERC Policy=Regional Common Denominators

B. Need for National Policy Principles to:

1. Attract Capital
2. Simplify Planning
3. Reduce Transaction Costs
4. Reduce Entry Barriers
5. Increase Transparency

C. Resultant Ten Principles

# Principle 1

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All viable methods of allocating the costs of new transmission require a **study of who benefits from, and who should pay for, enhancements of the grid.** Sound transmission planning is integral to that determination.

# Principle 2

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As a predicate to allocating the cost of transmission investments, such investments should be analyzed using **a single standard or unit of measure that combines reliability and economic values without distinction.**



# Principle 3

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An appropriate standard of measurement of the benefits of transmission is **aggregate societal benefits within the geographic region or market being examined.**

# Principle 4

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Sound transmission planning (to **analyze benefits and costs, and the distribution of benefits for the purpose of allocating costs**) should incorporate a number of features:

# Principle 4A

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Transmission planning and analysis should be done on a **regional level – focusing on larger regions as a general rule**. While the overall planning process must encompass a large region, the planning studies **cannot lose sight of the specific impacts on identifiable sub-regions as well**.



# Principle 4B

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Transmission planning and analysis should **include all of the demand loads (existing and reasonably anticipated) located within the geographic region** for which planning is taking place.

# Principle 4C

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Transmission planning should occur in **a process that is open, transparent, and inclusive, and conducted by a credible entity without particular attachment** to interests or particular market outcomes in the region.

# Principle 5

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**Transmission investments involving baskets of projects that satisfy these standards** and which emerge as being net beneficial (to either the region or sub-region) through the results of robust transmission planning processes **should presumptively be candidate for broad, or socialized, cost recovery across the region benefiting from the project(s).**

# Principle 6

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As a **rebuttable presumption** in transmission planning exercises on a going-forward basis, **the larger the size of a proposed new facility, the greater its potential to serve the broadest segment of interstate commerce** and therefore the larger the region that should support it.

# Principle 7

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**Except for interconnections of specific new generation, loads in the benefitting region (or sub-region) should be allocated to the costs of new transmission investment.**



# Principle 8

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**New transmission investment should be supported in Federal or other wholesale rates, as appropriate, and not included in retail rate base subject to regulation by the various States.** To the extent that existing transmission assets can be moved from retail rate base and transferred to Federal rates in an orderly and coherent manner, it would be useful to do so.

# Principle 9

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**On a going-forward basis only and subject to constraints related to the timing, scale, and nature of the initial allocation, cost allocation for new transmission should be subject to periodic review to determine whether beneficiaries from the investment have changed in any major ways that distort cost responsibility and appropriate pricing. Established transmission cost allocations should otherwise be presumed to be just and reasonable.**

# Principle 10

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**Free entry of transmission investment should be permitted, to the extent that the proponents are willing to bear the costs for such investment and that such investment does not adversely impact the network in ways that are not appropriately addressed by the proponents.**