

Kansas Electric Transmission Summit V (December 14, 2007)

Outline of General Discussion Topics and Issues

“Commissioner Moeller’s Perspective on EHV Construction, Seams Elimination, the Pace of Transmission Development and Other Issues”

- **Theme:** Much has changed during the past year; however much work still needs to be done in the area of promoting the development of new high-voltage transmission lines.
- **Remind** the audience of the major topics that were covered by me at last year’s Summit:
 - o Rate Incentives for Transmission (Order No. 679): FERC’s new statutory authority (under FPA via EAct) provides certain rate incentives to attract investment in transmission facilities. Congress justified the use of incentives, believing that consumers would benefit by the construction of new transmission infrastructure, since these needed facilities will increase reliability and reduce the cost of delivered power by reducing transmission congestion. **2007 Update:** During the past year, many utilities have applied to FERC for transmission-related rate incentive treatment and the Commission has reviewed the merits of each application on a case-by-case basis.
 - o Transmission Back-Stop Siting Authority (Order No. 689): Consistent with the directives in EAct, this Final Rule governs the filing requirements and procedures for entities that request the Commission to exercise its supplemental authority to site interstate transmission facilities. **2007 Update:** In July 2007, a legal challenge to these new regulations is pending against FERC in the U.S. Court of Appeals. *Also mention* that the DOE announced last week that it is reconsidering its NIETC designations.
 - o Mandatory Reliability Standards (Order No. 693): As you may know, last year

FERC's designated the NERC as the Electric Reliability Organization. As the ERO, NERC is charged with establishing a system of mandatory, enforceable reliability standards under the Commission's oversight.

2007 Update: In May 2007, the Commission took a landmark step by issuing a Final Rule that adopted (for the first time) mandatory and enforceable reliability standards. These rules took effect in June 2007; "grace period" ends on December 31, and non-discretionary penalties take effect on January 1st.

- **Since last year's Summit**, FERC has been working on a number of fronts relating to transmission. In fact, FERC has been addressing each of the items that were discussed in the sessions before lunch, namely the issues of: (1) cost allocation for transmission projects; (2) the need for integrated transmission planning; and (3) how we go about addressing seams issues (*highlight the Western & Eastern Seams Conferences held in Phoenix, AZ and Washington, DC.*)
- In February, the Commission adopted a Final Rule (**Order No. 890**) to reform our decade-old open-access transmission regulatory framework to ensure that transmission service is provided on a nondiscriminatory and just and reasonable basis, as well as to provide for more effective regulation and transparency in the operation of the transmission grid. The rule is massive and complex -- at 1,200 pages it addresses dozens of issues from the development of ATC calculation methodologies to instituting reforms regarding the pricing of energy and generator imbalances. Notably, the Rule requires that utilities establish a COORDINATED and OPEN TRANSMISSION PLANNING PROCESS. Under the Rule, each transmission provider's planning process must meet nine specified planning principles: coordination; openness; transparency; information exchange; comparability; dispute resolution; regional coordination; economic planning studies and cost allocation.
- **Order No. 890 Update:** Next week, at the Commission's monthly meeting, we're

scheduled to act on the Rehearing of our Final Rule (**Order No. 890-A**), so if you're interested in OATT reform, tune in on Thursday.

- **Competition ANOPR:**

- Provide general background regarding the current state of competitive markets. (*Timely example: Maryland's push for full "re-regulation."*)
- Explain that earlier this year, the Commission held two conferences on competition in wholesale markets, one on demand response and one on the role and structure of market monitoring units. Based on the comments received at those conferences, the Commission made preliminary proposals in four areas regarding wholesale competition in RTO and ISO regions. In **June 2007**, the Commission is sought comment on four distinct areas:
 1. The role of demand response in organized markets;
 2. Increasing opportunities for long-term power contracts;
 3. Strengthening market monitoring; and
 4. The responsiveness of RTOs/ISOs to customers and other stakeholders.

- **Returning to the issue of Transmission Planning and the Pace of Transmission Construction**, this is an issue that FERC is making a top priority. *Example: Just last Monday, the Maryland PSC released a study indicating that its state (the richest in the nation according the Census Bureau) may face brownouts and blackouts by 2011 unless new generation and transmission lines are constructed. With an expected 17 percent rise in demand from 2005 to 2016 and no major new transmission lines to move electricity from distant low-cost plants into Maryland, the state could be woefully short on power in the near future.*

Since the issuance of Order No. 890 earlier this year, the agency has devoted significant

resources towards educating transmission providers as to their new responsibilities and we have offered to assist them in satisfying the nine planning principles (*coordination; openness; transparency; information exchange; comparability; dispute resolution; regional coordination; economic planning studies; and cost allocation*). In fact, Commissioners and Staff have traveled around the country to transmission planning conferences in Denver, Atlanta, Little Rock, Boston, Park City, and Pittsburgh to offer help and guidance.

Cost Allocation Issue:

Not surprisingly, we've learned during these regional conferences that the issue of **cost allocation** is proving to be the most difficult. Cost allocation is so hard because there are clear winners and losers – the fact is that there is only so many ways to divide the costs and by reducing the expense to one party you will directly increase the costs to another party.

Every Region is Currently Struggling with the Question of How to Allocate the Costs of Economic Transmission Projects. → “There isn't an RTO in the country that is not grappling with this issue right now. We need to move beyond the parochial discussions and face the fact that wires are not being strung at the rate they are needed. If we need more cost-benefits studies to ensure that narrow interests don't stand in the way of robust grid, we should conduct these studies. But let's also be mindful of the accuracy of the assumptions being made in the studies in drawing conclusions.”

Inequitable Cost Shifts and “Free Riders” are Problematic. Can all the Beneficiaries even be Identified? → “Also, if we assume that the beneficiaries *can* be identified, then we'll need to ask the question of whether the beneficiaries should be required to approve the economic project in advance **or** should cost allocation be mandatory upon the beneficiaries?”

What is the Role of the RTO/ISO (if any) in Developing a Cost Allocation Methodology or a Cost Benefit Methodology? → “For instance, in New York some market participants argue that NYISO should not be in the business of determining economic projects as it’s beyond the scope of the ISO’s proper role. Other market participants disagree and believe that the ISO is in the best position to forecast the needs of the grid as a whole.”

Order No. 890 emphasized three principal factors relevant to regional cost allocation. “First, we stated that we will consider whether a cost allocation proposal fairly assigns costs among participants, including those who cause them to be incurred and those who otherwise benefit from them. It’s important to keep in mind that adequate financial support may not be obtained unless costs are assigned fairly to those who benefit from the project.”

“Second, the Commission will consider whether a proposal is generally supported by state authorities and participants across the region – and we acknowledged that different regional approaches can be just and reasonable. Obviously, regional solutions that garner the support of stakeholders (including affected state authorities) are preferable.”

“Finally, Order No. 890 stressed the importance of a cost allocation proposal that provides incentives to construct new transmission. One such incentive is the ability to reduce investment risk. This can be accomplished by setting forth objective allocation methodologies that are known in advance and not subject to constant litigation. I truly believe that new transmission investment will be hindered if we cannot provide some degree of upfront certainty regarding cost allocation.”

Cost Allocation for Backbone Facilities (500kV+) and the PJM Decision (Opinion No. 494):

With respect to EHV Backbone Facilities, the fact is that we need more of them, particularly in the congested transmission corridors. In a significant decision issued earlier this year (and which I supported), the Commission found that rolling-in or “socializing” the costs of high voltage transmission lines would encourage the development of needed backbone infrastructure within the PJM market, and in turn, provide region-wide reliability benefits. Specifically, FERC found that the “benefits of new facilities at or above 500 kV are sufficiently broad that a region-wide postage stamp rate is appropriate.” The order also held that lower-rated transmission facilities would continue to be subject to a license-plate rate design where each utility pays for transmission service based on the costs of the facilities located in the same sub-regional zone that the utility is located in.

👉 However, since this case is still pending before the Commission on rehearing, I cannot discuss the merits or take questions on this case at this time.

Seams Issues:

Finally, I’d like to mention that earlier this year, the Commission convened two technical conferences to address seams issues in the East and the West. Like the issue of cost allocation, resolving seams between the RTOs, ISOs, and transmission control areas is not an easy issue to address. However, we should recognize that seams are a fact of life and they’re everywhere. Even if we had a single national grid, I suspect that regional seams would undoubtedly persist.

Carl Monroe of SPP testified before the Commission back in March and provided us with the current status of seams issues in SPP. He also gave us some suggestions to improve seams management in operations and planning. Overall though, he testified that the seams agreements that are in place are working well and that there were no significant

issues. Carl noted that SPP is continuously working to improve seams management between its interconnections to the East and West, and to ERCOT, and to develop comprehensive seams agreements with Entergy and MAPP.

I'd like to hear your thoughts on the current state of seams, and whether you believe that the transmission planning requirements of Order No. 890 are sufficient to resolve any remaining seams issues and what other improvements to seams agreements need to be made.