



**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

Competitive Transmission Development
Technical Conference

Docket No. AD16-18-000

WIRES COMMENTS OF POST-TECHNICAL CONFERENCE QUESTIONS

I. Background

WIRES¹ once again applauds the Commission for its initiative and its continued appreciation of the important role that development of the high-voltage electric transmission network plays in enabling and sustaining constructive change in the Nation's economy. WIRES highlighted its interest in the continuing challenges facing interregional transmission planning when it participated in the fourth panel regarding transmission coordination on Day 2 (June 28) of the Technical Conference. WIRES wishes to express its appreciation for the Commission's follow-up request for comments in specific areas of importance for the transmission sector.

In addition to responses to specific questions posed by the Commission, WIRES believes that further examination of the Commission Staff's transmission metrics study,

¹ WIRES is an international non-profit association of investor-, member-, and publicly-owned electric transmission providers, renewable resource developers, regional transmission organizations, and economic, technology, and policy consultants whose sole mission is promotion of investment in the high-voltage electric transmission. A description of its membership, its principles, and its activities are available at www.wiresgroup.com. WIRES educational efforts include several studies of the operational, environmental, and economic benefits of transmission and the regulatory barriers to development as well as public briefings about transmission operations and policies.

which was cited during the Technical Conference, is appropriate.² We therefore conclude these comments below with observations about the analytical goals of Staff's Metrics Study as well as the methodology employed.

WIRES respectfully submits the following brief comments in response to the questions listed in the Commission's Notice of August 3, 2016.

II.

Interregional Transmission Coordination Issues (Selected Panel Four Issues)

- 1. What factors have contributed to the lack of development of interregional transmission facilities (i.e., a transmission facility that is located in two or more transmission planning regions)? Are there actions the Commission could take to facilitate such development?**

WIRES' response: WIRES is concerned that there are aspects of interregional transmission planning/coordination under Order No. 1000 that are ineffective or, in some regions, could seriously inhibit the development of more efficient or cost-effective interregional transmission solutions to local and regional needs identified in the regional transmission planning processes. In some RTOs, per their Commission-approved tariffs, a barrier to the approval of broadly beneficial interregional projects is the inconsistency in the models, assumptions, scenarios, eligibility criteria, and thresholds used in the interregional "joint evaluation" to identify candidate interregional projects and the models, assumptions, scenarios, eligibility criteria and thresholds used by individual regions in their planning processes to evaluate whether candidate interregional projects should be included in regional plans. The experience of most regions up to this point indicates that it is common for projects that are shown to provide benefits in

² Staff Report, *Transmission Metrics: Initial Results*, Federal Energy Regulatory Commission, March 2016 ("Metrics Study").

interregional evaluations to fail regional evaluations for inclusion in regional plans. This is occurring in certain cases because the regions are not necessarily relying on the interregional analyses to decide whether a project should be included in their regional plans; instead, regions are conducting their own additional analyses with their own models and assumptions. Further, a region's plans and project evaluation may, in some cases, assume all costs of a proposed project will be borne by customers in that region rather than being shared interregionally. Thus, potential interregional projects are failing because they are being subjected to multiple, different, and inconsistent evaluations.

- 5. Do interregional cost allocation methods accepted by the Commission, such as the “avoided cost only” method, impede interregional transmission coordination? If so, are there alternative cost allocation methods that could better facilitate interregional transmission development? Would those methods be consistent with interregional transmission coordination processes or would the interregional transmission coordination processes need to change to accommodate such alternative cost allocation methods?**

WIRES’ response: In regard to the barriers to developing interregional transmission projects created by cost allocation methodologies, WIRES has described its concerns in the recent whitepaper developed by economists at The Brattle Group³ and in their past research. The factors driving these concerns create the risk that the benefits of interregional transmission that are considered in evaluating projects for eligibility for interregional cost allocation are not always taken into account in project evaluations or in determining cost allocation and, as a result, the lowest-cost, most-beneficial solutions for electric customers will not be identified and advanced. WIRES’ specific concerns

³ Pfeifenberger and Chang, *Well-Planned Electric Transmission Saves Customer Costs: Improved Transmission Planning Is Key To The Transition To A Carbon-Constrained Future*, for WIRES (June 2016)

about the evaluation of interregional project benefits and cost allocation in general include:

- The benefits evaluated in some regions' cost allocation methods – particularly those related to economics – are limited to one metric (e.g., adjusted production costs or net load payments). This ignores the many other economic benefits that transmission provides (e.g., reduction in transmission line losses).
- It is common not to consider benefits specific to interregional projects – such as reserve sharing that can reduce planning reserve margins and costs of needed capacity in each region. The Commission should require regions to incorporate benefits specific to interregional projects in all interregional cost allocation methodologies.
- “Least common denominator” approaches to evaluating projects for interregional benefits consider only a limited subset of the benefits recognized in each of the individual regions, rather than considering all benefits recognized within regional planning processes.
- There also are barriers posed by only considering limited project types (e.g., just reliability or just economics) and requiring a project to provide identical benefits in both regions (e.g., an interregional reliability project could only be evaluated for the reliability benefits it provides in the regions, regardless if the project provides substantial economic benefit in one of the regions and reliability benefits in the other). Thus, the Commission should require regions to ensure that interregional evaluation processes

and cost allocation methods encompass or are based on the full range of reliability, economic, and public policy benefits provided by interregional projects. In addition, FERC should require regions to allow for projects to qualify for interregional cost allocation to the extent they provide benefits in different regions – even different benefits such as reliability in one region and economic benefits in another. FERC should require that interregional economic transmission projects must only meet the benefit-to-cost ratios of each region, and not an additional interregional cost-benefit ratio. In the alternative, benefit-to-cost thresholds for interregional tests should be no more stringent than those required in each region. Ultimately, the allocation of costs should follow the benefits of the interregional project.

III.

Transmission Incentives and Competitive Transmission Development Processes (Selected Panel Three Issues)

- 1. Should the Commission pre-approve any or all of the following incentives for transmission facilities selected in a regional transmission plan for purposes of cost allocation through competitive transmission development processes: 100 percent construction work in progress in rate base; regulatory asset treatment; or recovery of 100 percent of the cost of abandoned facilities?**

WIRES' response: Construction Work in Progress (CWIP) and Abandoned Plant cost recovery should be treated under general ratemaking principles rather than as incentives. Thus, developers should be required to request these well-established rate mechanisms in a Federal Power Act Sec. 205 filing, but should not have to show they meet Order No. 679 requirements. These mechanisms provide greater certainty for

developers and, in some cases, lower costs for customers (e.g., CWIP eliminates the carry charge related to Allowance For Funds Used During Construction (AFUDC) for the time projects are being developed).

IV.

Transmission Metrics

WIRES sees merit in the objectives that Commission Staff (“Staff”) is pursuing in undertaking its Metrics Study. First, the Commission should be able to roughly determine whether its “policies help achieve appropriate levels of transmission investment to address current and emerging reliability needs, economic considerations, and needs driven by public policy requirements, while maintaining just and reasonable rates . . .”⁴ Regulators do not always engage in the kind of critical re-assessment that the Metrics Study represents, however, and we applaud the effort. Second, we recognize that ascertaining whether the nation is building sufficient transmission and the “right” transmission is an important, if extraordinarily difficult, undertaking. WIRES believes that investigating whether policy and regulation are ensuring or positively impacting the adequacy of transmission investment today is a fundamentally different kind of analysis than determining what the policy, economic, and technological environment will require of the grid in a decade or two. The latter analysis would also measure the effectiveness of new technologies in meeting evolving grid requirements and significant increases in electricity demand overtime.⁵

⁴ Metrics Study at 5.

⁵ Frayer and Wang, *Market Resource Alternatives: An Examination of New Technologies in the Electric Transmission Planning Process*, for WIRES (October 2014).

In our view, Staff comes closest to responding to the first enquiry but does not realistically consider the issue of future adequacy of transmission and transmission planning. Given the length of time needed to complete the planning and approval cycles for transmission projects, WIRES is persuaded that regulators and planners must begin addressing the second issue now.

As we have advanced on other occasions and do so again here, the success or failure of “anticipatory planning” in creating a robust grid capable of supporting the coming clean energy, technology-driven economy will be the best measure of the success of Order No. 1000 in the long run. We therefore hope that Staff will revisit its objectives and its analytical approach based on how the Commission expects Order No. 1000 processes to satisfy the “need” for transmission in both the near term and long term.

Even assuming that Staff can plausibly deduce the “adequacy” of current transmission investment without an understanding of the nation’s energy future for which transmission is being planned, concerns have been expressed about the ability of the specific metrics chosen by Staff to produce meaningful results. There may be better criteria by which to judge the aggregate impacts of FERC policies, and these should be further explored with stakeholders. In order for Staff to arrive at any valid conclusions about transmission development using workable metrics, Staff will need timely data that is better suited to the task.⁶

⁶ Such information might include circuit miles of transmission (by voltage class) actually built, rebuilt, or upgraded; interregional projects built, rebuilt, or upgraded; the percentage of non-incumbent transmission bids or proposals in a given year; non-incumbent projects awarded in relation to all awards; increased transfer capability between regions; decreases in congestion costs or payments; the typical timeline from project conception to

Measuring the sufficiency of investment in a transmission network that, ultimately, must be capable of supporting the nation's future electrical requirements is the core responsibility of transmission planners. In our view, the Commission must ensure that planning is forward-looking and that it examines transmission needs more expansively than does the current Metrics Study. To judge the success of the Commission's policies in fostering a robust grid that supports cost-effective resource options for future needs, WIRES believes the necessary metrics and data may be quite different from those relied on by Staff. A better overall methodological starting point is presented in the recent study performed for WIRES by economists at The Brattle Group.⁷ It is succinct and informative on this point:

1. Transmission projects require at least 5-10 years to plan, develop, and construct; as a result, planning would have to start now to more cost-effectively meet the challenges of changing markets fundamentals and the nation's public policy goals in the 2020-2030 timeframe;

2. A continued reliance on traditional transmission planning that is primarily focused on reliability needs will lead to piecemeal projects instead of developing integrated and flexible transmission solutions that enable the system to meet public policy goals more cost effectively; and

3. We are in the midst of an investment cycle to upgrade or replace the existing transmission infrastructure, mostly constructed in the 1960s and 70s; this provides unique opportunities to create a more modern and robust electricity grid at lower incremental costs and with more efficient use of existing rights-of-way for transmission.

Admittedly, pursuit of such objectives may entail biting off more than Staff or the Commission contemplated in the Metrics Study. WIRES is nevertheless certain that the concepts of "need" for transmission and the "adequacy of transmission investment" should henceforth be evaluated in part, if not entirely, in the context of a clear vision of

designation of a developer to energization; major siting challenges, including organizational, jurisdictional, and procedural barriers to be crossed; and the cost profile of competitive and non-competitive projects.

⁷ Pfeifenberger and Chang, at iii.

the future for which we are planning. WIRES would work with FERC Staff in pursuit of a metrics report that comes closer to accomplishing these objectives.

In sum, it is axiomatic that regulators and the industry will always want to know whether reliability is improving, whether congestion is diminishing, whether investment is keeping pace with technology and demand, and whether public policy facilitates or inhibits beneficial changes. However, those “metrics” alone will not foretell how well the country has prepared complex electric transmission infrastructure for its critical role in the coming carbon-constrained electric future. WIRES looks forward to assisting Staff in this challenging analytical task.

Conclusion

WIRES appreciates the Commission’s consideration of these comments. The range and complexity of the subject matters outlined in the Commission’s May 10 Notice indicate to WIRES that this conversation about the future of Order No. 1000 implementation and transmission policies is just beginning. In that spirit, WIRES stands ready to assist the Commission in its future work in this area.

Respectfully submitted,



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