WIRES

FERC's Order No. 679 Transmission Incentive Policy
THE IMPORTANCE OF THE RTO PARTICIPATION INCENTIVE

The Transmission Organization Participation Incentive allows for an incremental return on equity for Transmission Owners participating in RTOs and ISOs. This compensates Transmission Owners for bearing increased risks while encouraging outcomes with considerable customer benefits.

In 2006, FERC issued Order No. 679 in response to the Energy Policy Act of 2005 (EPAct 2005). EPAct 2005 directed FERC to create an incentive structure for utilities that join transmission organizations (RTOs/ISOs), handing over control of their transmission assets. The purpose of this Congressional mandate was to promote participation in wholesale electricity markets and facilitate regional transmission planning activities to the benefit of customers. The Incentive, often referred to as the RTO Participation Incentive, is not just the brainchild of a past Commission, it is a clear statutory requirement intended to be available to utilities that join *and* remain in an RTO/ISO. This incentive policy has supported stability in RTO/ISO participation over nearly two decades, which in turn has yielded a wide range of consumer benefits, including optimization of the transmission system and reduced costs through improvements in technical and economic efficiency.

BENEFITS OUTWEIGH COSTS

RTOs/ISOs create substantial societal benefits, all of which flow to consumers. The efficiency gains and optimization of the transmission system that occur in RTO/ISO regions generate more efficient dispatch, cost savings achieved through reserve sharing, and improved transmission planning outcomes by taking a regional view of network needs. These benefits far outweigh the costs of the RTO/ISO Participation Incentive to customers.

BY THE NUMBERS

- Certain RTOs/ISOs have performed analyses of annual benefits delivered to customers in their footprints:
  - **PJM**: Approximately $3-4B / year
  - **MISO**: More than $5B / year
  - **SPP**: More than $3.5B / year
- The benefits of this policy exceed its costs, potentially by as much as 20-to-1.

THE INCENTIVE COMPENSATES UTILITIES FOR RISKS OF BEING IN AN RTO/ISO

RTO/ISO membership imposes substantial burdens on transmission owners, including the loss of operational control of transmission facilities to a third party; obligations to build new transmission facilities at the direction of the RTO/ISO; diminished decision-making control over assets while retaining the responsibility of maintaining the system; obligations to obey RTO/ISO rules; and an obligation to provide electric service even while the underlying expectations of RTO/ISO participation can change unpredictably over time. It is particularly unusual for an investor-owned company to transfer considerable control and decision making regarding owned assets to a third party, while retaining liability associated with those assets. However, this is exactly what a utility does when it joins an RTO/ISO, and doing so creates risk that is otherwise uncompensated but for the RTO Participation Incentive.

CONGRESSIONAL MANDATE DESIGNED TO SPUR TRANSMISSION INVESTMENT

Congress requires an incentive to be paid to transmission owners that join an RTO/ISO – there is no sunset provision in the text of EPAct 2005, nor other constraints that limit the Incentive based on the reason for joining or remaining in an RTO/ISO. The need for transmission is as acute now as it was when EPAct 2005 was enacted. Many regions are experiencing or expect to experience significant new demands on their grids, and development of domestic infrastructure investment is critical to maintaining reliability. The RTO Participation Incentive is a core element of FERC's regulatory framework that sends a signal to investors that transmission infrastructure is a sensible, stable investment despite the substantial hurdles in the development process.