

# New Transmission Cost Causation & Beneficiary Analysis

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# Disclaimer

Please note that the views expressed are my own and do not necessarily represent those of the Commission, the Chairman, or any individual Commissioner.



## Timeline

- Order No. 888 in 1996
  - Creates *pro forma* Open Access Transmission Tariff. Requires public utilities to provide open access to their transmission their at standard rates, terms and conditions. Must unbundle generation and transmission charges. Must take service themselves under their own OATTs.
- Order No. 890 in 2007
  - Requires coordinated, open and transparent local transmission planning processes.
- Order No. 1000 in 2011
  - Regional transmission planning and cost allocation



# Cost Causation & Beneficiary Analysis for New Transmission

- Cost causation and beneficiary analysis are inherent in transmission planning and cost allocation.
- Order No. 890 required openness and transparency in transmission planning processes.
- Order No. 1000 created a link between selection in a transmission planning process and cost allocation methods.



# Order No. 890 – Transmission Planning Principles

- **Coordination:** Must provide for the timely and meaningful input and participation of customers and other stakeholders regarding the development of transmission plans, allowing customers and other stakeholders to participate in the early stages of development.
- **Openness:** Transmission planning meetings must be open to all affected parties including, but not limited to, all transmission and interconnection customers, state authorities, and other stakeholders.



# Order No. 890 – Transmission Planning Principles (continued)

- **Transparency:** Must reduce to writing and make available the basic methodology, criteria, and processes used to develop transmission plans, with sufficient information made available to enable customers, other stakeholders, and independent third parties to replicate the results of transmission planning studies.
- **Information Exchange:** Network customers must submit information on their projected loads and resources on a comparable basis (e.g., planning horizon and format) as used by public utility transmission providers in planning for their native load.



# Order No. 890 – Transmission Planning Principles (continued)

- **Comparability:** Must treat similarly-situated customers comparably in transmission system planning and treat resources on a comparable basis.
- **Dispute Resolution:** Must have a process to manage disputes that arise from the transmission planning process.
- **Economic Planning Studies:** Must account for economic, as well as reliability, considerations in the transmission planning process.



# Order No. 1000

- Regional Transmission Planning Requirements
  - Public utility transmission providers must participate in a regional transmission planning process that produces a regional transmission plan that complies with the Order No. 890 transmission planning principles.
- Public Policy Requirements
  - Local and regional transmission planning processes must have a process to identify and consider transmission needs driven by public policy requirements established by local, state or federal laws or regulations.



# Order No. 1000

- Non-incumbent Developer Reforms
  - Eliminates any federal right of first refusal for transmission facilities selected in a regional transmission plan for purposes of cost allocation and requires a non-discriminatory regional process for transmission project submission, evaluation, and selection.
- Interregional Transmission Coordination
  - Neighboring regions must share information regarding their respective needs and potential solutions as well as identify and jointly evaluate interregional transmission facilities that may be more efficient or cost-effective solutions to those regional needs.



# Order No. 1000

## Cost Allocation Requirements

- Regional transmission planning process must have a regional cost allocation method or methods for a new transmission facility selected in the regional transmission plan for purposes of cost allocation.
  - Cost allocation method must satisfy six regional cost allocation principles.
- Neighboring transmission planning regions must have a common interregional cost allocation method for a new interregional transmission facility that the regions select in their regional transmission plan for purposes of cost allocation.
  - Cost allocation method must satisfy six interregional cost allocation principles (that are very similar to the regional cost allocation principles).
- Participant-funding of new transmission facilities is permitted but not allowed as the regional or interregional cost allocation method.



# Regional Cost Allocation Principle 1

The cost of transmission facilities must be allocated to those within the transmission planning region that benefit from those facilities in a manner that is at least roughly commensurate with estimated benefits. In determining the beneficiaries of transmission facilities, a regional transmission planning process may consider benefits including, but not limited to, the extent to which transmission facilities, individually or in the aggregate, provide for maintaining reliability and sharing reserves, production cost savings and congestion relief, and/or meeting Public Policy Requirements.

# Regional Cost Allocation Principle 2

Those that receive no benefit from transmission facilities, either at present or in a likely future scenario, must not be involuntarily allocated any of the costs of those transmission facilities.



## Regional Cost Allocation Principle 3

If a benefit to cost threshold is used to determine which transmission facilities have sufficient net benefits to be selected in a regional transmission plan for the purpose of cost allocation, such a threshold may not include a ratio of benefits to costs that exceeds 1.25 unless the transmission provider justifies and the Commission approves a higher ratio.

## Regional Cost Allocation Principle 4

The regional cost allocation method must allocate costs solely within that transmission planning region unless another entity outside the region or another transmission planning region voluntarily agrees to assume a portion of those costs.



## Regional Cost Allocation Principle 5

The cost allocation method and data requirements for determining benefits and identifying beneficiaries for a transmission facility must be transparent with adequate documentation to allow a stakeholder to determine how they were applied to a proposed transmission facility.

## Regional Cost Allocation Principle 6

A transmission planning region may choose to use a different cost allocation method for different types of transmission facilities in the regional transmission plan, such as transmission facilities needed for reliability, congestion relief, or to achieve Public Policy Requirements. Each cost allocation method must be set out clearly and explained in detail.



# Order No. 1000 – Cost Causation

- Cost Causation Principle
  - based on Commission precedent and court cases;
  - involves comparing the costs assessed against a party to the burdens imposed or benefits drawn by that party;
  - requires that all approved rates must reflect to some degree the costs actually caused by the customer that must pay them;
  - requires that the costs allocated to a beneficiary be at least roughly commensurate with the benefits that are expected to accrue to it;
  - does not require exacting precision;



# Order No. 1000 – Benefits & Beneficiaries

- To identify causes of costs, one must to some degree begin with benefits;
- It is appropriate to adopt a cost allocation principle that includes as beneficiaries those that cause costs to be incurred or that benefit from a new transmission facility;
- Order No. 1000 does not define benefits and beneficiaries but requires public utility transmission providers to be definite about benefits and beneficiaries for purposes of their cost allocation methods;
- Regional transmission planning process must provide entities that are allocated costs an understanding of the identified benefits on which the cost allocation is based.



# Order No. 1000 Transmission Planning Regions

