

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

Electric Transmission Incentives Policy) Docket No. RM20-10-000
Under Section 219 of the Federal Power Act)

**COMMENTS OF
SOUTHWEST POWER POOL INC.**

Southwest Power Pool, Inc. (“SPP”) respectfully submits the following comments in response to the Federal Energy Regulatory Commission’s (“Commission”) Notice of Proposed Rulemaking issued on March 20, 2020, proposing to revise the Commission’s existing transmission incentives policy and corresponding regulations.¹

At the outset, SPP appreciates the Commission’s recognition of the value of Regional Transmission Organizations (“RTO”) and Independent System Operators (“ISO”) in the electric industry, particularly in having an independent regional organization engaged in balancing diverse interests during the process of planning for expanding the transmission grid.

SPP recognizes and supports the Commission’s efforts to implement Section 219 of the Federal Power Act as enacted by the Congress directing the development of incentives for development of new transmission as well as incentives for utilities that join RTO/ISOs.²

¹ *Electric Transmission Incentives Policy Under Section 219 of the Federal Power Act*, 170 FERC ¶ 61,204 (2020) (“NOPR”).

² 16 U.S.C. § 824s.

As SPP has documented in independent analysis, new cost effective transmission development can provide significant benefits to customers in improving market efficiency, enhancing reliability, and effectuating state public policies.³ Likewise, participation in an RTO provides significant value to members and their retail customers.⁴

The Commission, in its ratemaking role under the direction of Congress, proposes to implement a ‘benefits’ test to evaluate the granting of transmission incentives for projects in an RTO/ISO. For market efficiency projects, the NOPR proposes to leverage RTO/ISO processes,⁵ and, for reliability projects, the Commission proposes ‘case by case’⁶ filings in which individual transmission developers detail the enhanced reliability benefits of their particular project.

SPP’s comments address only the NOPR’s proposal to use RTO/ISO’s transmission study processes and results for ratemaking purposes. SPP is raising concerns that the use of the transmission study processes for ratemaking purposes could create unforeseen challenges, unless coupled with appropriate Commission developed policy considerations. SPP asks the Commission to consider whether the proposed rule could:

- Expand debate on planning assumptions to include ratemaking consequences that have not previously been part of the planning process;

³ *The Value of Transmission: A Report by Southwest Power Pool* (January 26, 2016) (<https://www.spp.org/documents/35297/the%20value%20of%20transmission%20report.pdf>).

⁴ *14-1: The Value of Trust* (A report by Southwest Power Pool relating to the value of membership) (<https://www.spp.org/documents/58916/14-to-1%20value%20of%20trust%2020190524%20web.pdf>).

⁵ NOPR at P 30.

⁶ *Id.* at P 66.

- Divert the RTO/ISO planning emphasis from evaluating system impacts and optimizing transmission development toward more of a clearing threshold for return on equity (“ROE”) incentives;
- Dis-incentivize pursuit of overall regional economic benefits attributable to an RTO/ISO’s portfolio of projects for a particular planning cycle due to the targeted incentives of building individual projects;
- Cause confusion as to how the Commission’s proposed ‘benefits’ metrics will interact with existing FERC approved planning processes embodied in RTO/ISO tariffs, and impose additional processes;
- Attribute a higher level of accuracy and precision expectations to RTO/ISO benefit/cost ratio projections given their new implications for ratemaking;
- Drive transmission developers to propose project solutions exclusively to meet the various Commission-developed incentives eligibility criteria instead of resolving identified transmission issues in a cost-effective manner with the best solutions.

Issues with each of these challenges are outlined below for the Commission’s consideration. Although SPP does not believe that these challenges are insurmountable, they underscore the need for the Final Rule to provide additional precision and clarity on the interrelationship of the incentive process (and the various eligibility criteria for incentives outlined in the NOPR) with the existing Commission approved processes embodied in RTO/ISO tariffs governing their individual planning processes.

I. COMMENTS

A. The Impact of the NOPR on RTO/ISO Planning Processes

The use of an RTO/ISO planning process as part of a ratemaking ‘benefits’ test has the potential impact of further complicating what are already multifaceted planning processes by giving each of the RTO/ISO planning decisions ratemaking consequences. To date, these activities have always been separate, with ratemaking issues the province of the Commission⁷ and transmission planning the province of RTOs/ISOs. Furthermore, SPP, as the administrator of the Commission approved SPP Open Access Transmission Tariff, takes no position on transmission rates requested by transmission owners or whether the requested rates should be approved by the Commission.

The NOPR potentially entangles planning and rate setting activities by explicitly adopting the benefit-to-cost (“Benefit/Cost”) ratios used for RTO/ISO planning purposes as the basis for determining eligibility for incentives for ratemaking purposes. It is not clear from the NOPR how these activities will interact with the already established RTO/ISO planning processes or how they could influence these process in unforeseen ways.

B. Unrealized Benefits by Planning for Individual Transmission Projects

SPP has concerns with the unintended results of the NOPR’s proposal to grant ROE incentives to transmission projects based on economic RTO/ISO Benefit/Cost calculations. A project having a higher Benefit/Cost ratio is not and should not be the only determination that is made with regard to whether a specific transmission project should be built. The

⁷ 16 U.S.C. § 824d(c); *Demand Response Coalition v. PJM Interconnection, L.L.C.*, 143 FERC ¶ 61,061, at P 17 (2013); *Cargill Power Markets, LLC v. Public Service Company of New Mexico*, 141 FERC ¶ 61,141, at P 14 (2012); *see generally Prior Notice and Filing Requirements under Part II of the FPA*, 64 FERC ¶ 61,139 (1993) (explaining Commission jurisdiction with respect to all rates and charges that are “for or connected with” and all agreements that “affect or relate to” jurisdictional activities).

NOPR could incentivize the building of certain projects exclusively on an individual project basis and after only considering economic benefits. This reliance on awarding incentives based on economic benefits of individual projects could cause other projects to not be built that would provide more overall economic benefits when looking at how a certain portfolio of projects benefit the entire regional transmission system or might better provide reliability-based and other benefits that need to be considered when addressing regional needs.

C. Divert the RTO Planning Emphasis to Clearing a Threshold for ROE Incentives

RTO/ISO planning focuses on addressing transmission system usage impacts and developing a future grid to meet the needs of anticipated changes in loads and resources. Use of transmission planning studies to grant incentives will increase the risk that those studies will be seen by some as primarily serving the purpose of achieving an incentive, rather than to address reliability and economic needs of the region. Achieving an incentive base ROE is currently not a function of SPP's planning process. Such an incentive could invoke ancillary and unnecessary detractions from the stated purpose of RTO transmission planning.

D. Use of Benefit/Cost Ratios

Currently, the Benefit/Cost ratio used in SPP's planning studies is a threshold question for the purpose of affirming which projects should receive notifications to construct.⁸ These ratios, and the assumptions included in their determination, historically

⁸ SPP planning process evaluates projects in a portfolio to maximize regional benefits and to plan for a range of futures, not individually. Therefore, the Benefit/Cost ratio is not for an individual project.

were not designed or intended to be used as justification for ratemaking purposes. Ratemaking is based on historical data and future assumptions while transmission planning studies are primarily based on data and assumptions projected for the future.⁹ Additionally, the RTO/ISO's planning studies are focused on specific future points-in-time and are based on projected topology changes and other assumptions for those future times. The NOPR proposes to not only use Benefit/Cost ratios for affirming a project's need for planning purposes but also use Benefit/Cost ratios to impact the costs and revenues for a project. Especially with the threshold discussions in the NOPR, an accuracy is attributed to the projections and assumptions in the planning study that is beyond what is necessary for approval of a project in SPP. A new found importance from a Commission rule for ratemaking effectively results in increasing the planning process time and the debate over the planning assumptions in order to move the Benefit/Cost ratio to clear a threshold for ratemaking purposes for an incentive seeking transmission owner or conversely to lower the threshold for stakeholders wanting lower transmission rates. The shift to increase usage of RTO planning as a test for higher rates may motivate parties to more publically either support or oppose a particular Benefit/Cost analysis given its added ratemaking significance.

Moreover, the transmission system characteristics are dynamic with Benefit/Cost ratios subject to change as the generation mix, loads, and topology change over time. Although RTO/ISO planning processes may re-examine the Benefit/Cost ratios for given projects (and RTOs/ISOs reserve the right to cancel projects due to changed

⁹ Similar to ratemaking, the NOPR proposes to use actual costs of transmission projects, using historical data, to determine if projects are eligible for a ROE incentives. NOPR at P 59.

circumstances), the NOPR does not make clear if the incentives tied to these ratios will also be subject to adjustments and change. Each re-examination and adjustment, although appropriate for planning purposes, creates an additional uncertainty for transmission owners, stakeholders and ratepayers.

E. National Benefit/Cost Ratio

The NOPR proposes to use a national Benefit/Cost ratio for granting the ROE incentives. The use of a national Benefit/Cost ratio is challenging, because RTO/ISO planning processes, assumptions, and value determination mechanisms are regionally different to account for the differences in each region. SPP utilizes a 1.0 40-year net present value Benefit/Cost ratio,¹⁰ which is lower than some RTOs. That value has been vetted by SPP's membership, as recently as early 2020. This lower minimum benefit/cost ratio requirement reflects the consideration that SPP uses numerous metrics to forecast value of a project portfolio with a relatively high level of confidence and also that experience demonstrates actual benefits generally exceed expected benefits of transmission development in SPP based off real-time dispatch studies. Implementing a single ratio from planning analysis for rate setting, without recognition of the regional differences in planning, will result in differential treatment between the RTOs.

¹⁰ SPP Integrated Transmission Planning Manual section 5.3.1 states: "All solutions will be evaluated based on their one-year benefit/cost ratio (benefit/cost) and 40-year net present value (NPV) benefit/cost, using conceptual cost estimates. If a solution mitigates congestion for an economic need and has at least a 0.5 one-year benefit/cost or a 1.0 40-year NPV benefit/cost, it will be included for further consideration during portfolio development. For the 40-year NPV benefit/cost, the average SPP net plant carrying charge and an in-service date of year 5 will be applied."

F. The Process of Calculating Ex-Post Benefits

The Commission proposes in the NOPR to grant incentives based on ex-post benefits for individual projects. The Commission proposes to calculate ex-post benefits for individual projects after that project is in-service, but it is not clear from the NOPR whether the responsibility for calculating ex-post benefits for individual projects will or may be the responsibility of RTO/ISOs. If the Commission intends for RTO/ISOs to perform the proposed ex-post benefit calculation, SPP wishes to point out the challenges the proposal creates. SPP does not currently perform this type of process, and implementing this requirement would require additional staff time, processing time, cost, and additional rules and regulations regarding the assumptions to be used in the calculation of these benefits. Workload and engineering judgement would be necessary in order to develop a defensible benefit value, due to the vast number of variables in real-time that are not contemplated in ex-ante transmission planning studies. SPP has historically performed this type of backward looking analysis to evaluate performance of a portfolio of projects not to evaluate an individual project. Considering that the transmission system is a network of highly interdependent upgrades, it is very challenging to study a single line to determine its value when the line being studied is a piece of a much larger network.

II. CONCLUSION

SPP respectfully requests that the Commission consider these comments in developing a final rule.

Respectfully submitted,

/s/ Justin A. Hinton
Justin A. Hinton
Attorney
Southwest Power Pool, Inc.
201 Worthen Drive
Little Rock, AR 72223
Telephone: (501) 482-2468
jhinton@spp.org

**Attorney for
Southwest Power Pool, Inc.**

Dated: July 1, 2020