

Mind the Regulatory Gap

How to Enhance Local Transmission Oversight

Presentation to PJM PIEOUG December 10, 2024 Claire Wayner (<u>cwayner@rmi.org</u>)

Consumer bills for transmission are rising rapidly

- Transmission and distribution costs now make up 24% of customer bills, compared to 10% in 2005
- Transmission spending hit an all-time high in 2023¹

Portion of Residential Bill Spend on Transmission & Distribution



Source: RMI Utility Transition Hub

¹ Nathan Shreve et al., *Fewer New Miles: The US Transmission Grid in the 2020s*, Grid Strategies with support from Americans for a Clean Energy Grid, July 2024, <u>https://cleanenergygrid.org/wp-content/uploads/2024/07/GS_ACEG-Fewer-New-Miles-Report-July-2024.pdf</u>

But the US has seen fewer dollars spent on high-voltage transmission

- The percent of spending on highvoltage (>230 kV) projects has declined from 72% in 2014 to 34% in 2021²
- The US added an average of 350 miles/year of transmission in the early 2020s, compared to 1700 miles/year in the early 2010s¹
- 90% of recent transmission spend has been on lower-voltage reliability upgrades³



Share of US Transmission Spend by Voltage

² State of the Markets 2021, Federal Energy Regulatory Commission, April 21, 2022, <u>https://www.ferc.gov/media/report-2021-state-markets</u> ³ Johannes Pfeifenberger, "Ensuring Cost Effective Transmission in Support of a Clean Energy Transition," presentation to New England States Committee on Electricity, The Brattle Group, August 9, 2024, <u>https://www.brattle.com/wp-content/uploads/2024/08/Ensuring-Cost-Effective-Transmission.pdf</u>

Source: FERC State of the Markets 2021 report

Local transmission investments have increased in recent years across the country

Local transmission refers to projects that are planned and built by a single utility to meet needs within that utility's footprint

Regional transmission refers to projects that are planned at the regional level by regional planning entities and may span multiple utilities' footprints

PJM INTERCONNECTION MIDCONTINENT

Mid-Atlantic (PJM): Spending on local projects increased 26x (2009-2023)

> New England (ISO-NE): Spending on local projects increased 8x (2016-2023)

Midwest (MISO): Portion of spend on local projects increased from 54% (2017) to 78% (2022)

> California (CAISO): 63% of spend was on local projects (2018-2022)

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PJM Transmission Spending

A regulatory gap enables local transmission to escape oversight



- The RTO says local projects are outside its planning purview
- It may do a basic noharm analysis, but no meaningful review of the project



- Since FERC has ratemaking authority, the PUC has little oversight power over rates
- Though the state may require an integrated resource plan or a certificate of public convenience and necessity in some cases, these do not enable the PUC to ensure prudence



Local project built



Local project proposed



FERC

- FERC formula rate cases assume prudence and do not examine costs at the project level
- The burden of proof to show imprudence rests on stakeholders, who rarely have access to the necessary information

Action must be taken at the regional, federal, and state levels to close the gap

Regional

Implement regional-first planning

Standardize local project definitions and tracking

Strengthen state input and influence at the regional level

Federal

Reform the formula rate process

Establish an Independent Transmission Monitor

Explore performancebased regulation for transmission

State

Leverage and expand certificate of public convenience and necessity (CPCN) authority

Offer expedited cost recovery for local projects that have undergone a robust regional review

Update integrate resource plans to incorporate transmission

Create and fully leverage electric transmission authorities

Grow regulatory staff capacity and expertise



Appendix: Additional Solutions in Detail

Regional planning entities / FERC can implement a regional-first planning approach



Utilities submit proposed local needs. Transmission owners submit anticipated local needs at the start of each regional planning cycle, whether it involves planning over the short term or the long term.

Planning entity identifies the region's needs. The regional planning entity determines all regional needs holistically in addition to submitted local needs.

Planning entity identifies the best solutions. The regional planning entity determines the best solutions to the identified local and regional needs, including whether local projects can be right-sized to meet regional needs and whether alternative transmission technologies can be utilized.



Transmission owner optionally submits additional local projects. Following the regional planning entity's identification of solutions, each transmission owner can propose additional local projects for consideration if they feel there are unmet local needs. Such projects must still undergo state and federal review and may be held to a higher standard.

Regional

Regional planning entities can also standardize definitions and strengthen role for state input

- Standardize local project definitions and tracking: FERC can require all planning entities use the same terminology to refer to local project drivers and criteria. FERC can also require regions to share data on local projects in a standardized format.
- Strengthen state input and influence at the regional level: FERC can require that regional planning entities preserve a robust role for states
 - FERC could grant states filing rights under Sec. 205 of the Federal Power Act
 - FERC could require the creation and support of a regional group of consumer advocates for each regional planning entity

FERC has a direct role to play in changing how rates are set

Currently, most transmission rates in the US are set by FERC via **formula rates**, which presume prudence and offer little chance for scrutiny of individual project investment.

FERC could...

- Remove the presumption of prudence for local projects that do not undergo a thorough regional review
- Lower the evidentiary standard for parties interested in raising challenges as part of formula rate cases
- ✓ Remove the ROE adder for RTO membership for local projects that do not undergo a thorough regional review
- ✓ **Reduce the allowed ROE** for local projects in general

Federal

FERC can increase information transparency via an Independent Transmission Monitor

- An Independent Transmission Monitor (ITM) could be created at the national or regional level
- State regulators would benefit from enhanced access to transmission data and modeling expertise to scrutinize individual projects
- The ITM could also provide annual summaries of transmission spend trends and congestion patterns for each planning region

FERC can also explore performancebased ratemaking

Performance-based ratemaking (PBR) is an alternative to traditional cost-of-service regulation that seeks to align incentives utilities face with customer interests.

FERC has historically considered PBR in transmission but not acted.

FERC could...

- ✓ Consider performance incentive mechanisms (PIMs) to reward utilities for good grid performance (e.g., reduced congestion) or penalize them for bad performance (e.g., failure to engage in regional planning)
- ✓ Implement shared savings mechanisms to offer utilities a share of any cost savings from lower-cost solutions, such as grid-enhancing technologies

State

State regulators have four main "levers" they can "pull" on transmission, with key limitations

Lever

Limitatio

n

Certificate of Public Convenience and Necessity (CPCN)

Integrated Resource Plan (IRP)

Retail rates

Engagement at regional planning entity

- Many states do not require a CPCN for projects below a certain voltage
- Many states do not require a CPCN for a rebuild of existing infrastructure
- Most IRPs do not include transmission as a significant portion of planning
- Many states do not require PUC approval or review of IRPs

- Most transmission rates are set by FERC
- PUCs design retail rates with FERCapproved costs treated as a passthrough
- Regional planning entities allow for varying levels of state engagement
- Many entities do not allow for a formal voting or approval role for states

States can "pull" these "levers" to enhance local transmission oversight

- Leverage and expand CPCN authority: For states that do not require CPCNs for projects below a certain voltage threshold or project rebuilds, states could begin requiring CPCNs, even at reduced scope.
- Offer expedited cost recovery: States could offer expedited cost recovery for local projects that have undergone robust regional review.
- Update IRPs to incorporate transmission: States with IRPs could ensure that transmission is an integral component of IRPs and require PUC review and approval of IRPs.

States can also create new tools and dedicate more resources to PUCs

- States can consider creating electric transmission authorities, which are state government agencies that can advise on transmission planning, review, and permitting
- States can ensure PUCs have **proper resources** (staff, funding) to do adequate review of transmission projects