FERC Major Orders Related to Open Access and Transmission Investment

Transmission Replacement Processes
Senior Task Force Meeting
June 21, 2016
Overview:

Order No. 889
Order No. 2000
Order No. 2003
Order No. 679
In the Beginning . . .

- Power Plant Generates Electricity
- Transmission Lines Carry Electricity Long Distances
- Distribution Lines Carry Electricity To Houses
- Transformer Steps Up Voltage For Transmission
- Neighborhood Transformer Steps Down Voltage
- Transformers On Poles Step Down Electricity Before It Enters Houses
In 1996 **Order No. 888** laid the foundation upon which to build a transmission system aimed at opening the wholesale energy industry to competition. Order No. 888 required all public utilities that own, operate or control interstate transmission facilities to:

- Offer network and point to point transmission service and ancillary service to all eligible wholesale buyers and sellers;
- Take transmission service for their own use under the same terms and conditions offered to others;
- Functionally separate transmission and power marketing functions;
- Adopt an electronic transmission system information network; and
- Have on file with FERC an Open Access Transmission Tariff
Order No. 889 – Mechanism to Ensure Open Access

- In 1996, the Commission adopted **Order No. 889** - the companion order to Order No. 888 (memorialized in Part 37 of the Commission's regulations).
- Purpose of Order No. 889: Foster competition in wholesale power markets, which is possible only if all generation has equal access to (i) transmission information and (ii) transmission service.
- Order No. 889 set forth requirements for public utilities that own, operate or control facilities used for the transmission of electric energy in interstate commerce:
  - Create an open access same time information system (OASIS) and
  - Implement standards of conduct to functionally separate communications between employees engaged in transmission activities (system operators) from employees engaged in wholesale merchant tasks so they function independently.
• Basic Principle – Build the transmission system to meet the needs of open access customers
• Why? - FERC determined the public interest would be best served by a competitive wholesale market
  – Deliverable: Provided for a non-discriminatory and open access transmission system
• How? – FERC encouraged formation of independent system operators (ISOs)
Regional Transmission Organization/Independent System Operators

- Independent of market participants and transmission owners
- Provide non-discriminatory access to transmission service, interconnection, etc.
- Operate and oversee multiple markets for capacity, energy and ancillary services to facilitate competition among multiple sellers:
  - Market rules and OATTs developed through stakeholder process, then filed with FERC (no “one size fits all” approach)
  - Generally more non-utility “merchant” generation
In 1999 Order No. 2000 advanced the "voluntary" formation of Regional Transmission Organizations (RTOs).

Each public utility that owned, operated or controlled facilities for the transmission of electric energy in interstate commerce was directed to make certain filings with respect to forming and participating in an RTO.

Goal: Promote efficiency in wholesale electricity markets and ensure that electric consumers pay the lowest price possible for reliable service.

Not proposing “cookie cutter” organizational format or fixed or specific regional boundaries.
The Minimum Characteristics and Functions Of An RTO:

• Characteristics:
  (1) Independence
  (2) Scope and Regional Coordination
  (3) Operational Authority
  (4) Short term Reliability

• Functions:
  (1) Tariff Administration & Design
  (2) Congestion Management
  (3) Parallel Path Flow
  (4) Ancillary Services
  (5) OASIS, TTC and ATC
  (6) Market Monitoring
  (7) Planning and Expansion
  (8) Interregional Coordination
CURRENT RTOs

- Alberta Electric System Operator
- Electricity System Operator (IESO)
- Electric Reliability Council of Texas (ERCOT)
- Midwest Independent System Operator (MISO)
- New England ISO (ISO-NE)
- New York ISO (NYISO)
- Southwest Power Pool (SPP)
- California ISO (CAISO)

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In 2003 FERC issued Order No. 2003 requiring all public utilities that own, control or operate facilities for transmitting electric energy in interstate commerce to file revised OATTs to include standard generator interconnection procedures and a standard agreement.

Order No. 2003 applied to interconnection service to generators having a capacity of more than 20 MW. Order No. 2006 applied to small generators having a capacity of 20 MW or less.

Goal: Prevent undue discrimination, preserve reliability, increase energy supply and lower wholesale prices for customers by increasing the number and variety of generation that will compete in the wholesale electricity market.
• Standard Procedures and Agreement were intended to serve several important functions:
  – Limit opportunities for Transmission Providers to favor their own generation;
  – Facilitate market entry for generation competitors by reducing interconnection costs and time;
  – Encourage needed investment in generator and transmission infrastructure; and
  – Protect system reliability.
• Summary of Areas Covered by Order No. 2003 and its progeny:
  – Defining the capacity of Large Generator Interconnection and Small Generator Interconnection
  – Jurisdiction issues between interconnecting to transmission and distribution
  – Pricing and “but for” costs.
  – Queue priority, clustering, losing and maintaining queue priority
  – Study phases: Feasibility study, System Impact Study and Facility Study
• In 2005, Congress enacted section 1241 of EPAct of 2005 which added a new section 212 to the FPA to promote the operation, maintenance and enhancement of transmission infrastructure. Pursuant to section 219, FERC issued Order No. 679 which established incentive-based (including performance-based) rate treatments for the transmission of electric energy in interstate commerce.

• Each applicant was required to tailor its proposed incentives to the type of transmission investments being made and to demonstrate its proposal meets the section 219 requirements.
Under Order No. 679, the following rate treatments were available:

- Incentive rates of return on equity for new investments by public utilities (both traditional utilities and transcos)
- Full recovery of prudently incurred construction work in progress (CWIP)
- Full recovery of prudently incurred costs of abandoned facilities
- Use of hypothetical capital structures
- Accumulated deferred income taxes for transcos
- Adjustments to book value for transco sales/purchases
- Accelerated depreciation
• In 2007, FERC granted Xcel Energy incentive rates to accommodate renewable energy products (Docket No. ER07-1415).

• In 2010, FERC granted incentives for battery storage devices proposed to improve the operation and reliability of the CAISO grid (Docket No. EL10-19).

• In 2011, FERC issued a NOI seeking comments on Order No. 679 incentive rates. The topics included:
  – What factors should FERC consider in evaluating an application for incentives?
  – What obstacles do transmission developers face and what incentives are best suited to address those obstacles?
  – How should FERC consider changes in cost estimates?
  – What other factors should FERC consider in implementing the law?
In 2012, FERC issued a Policy Statement providing guidance on how it will evaluate applications for transmission rate incentives including:

- Reframing how FERC will implement the nexus test from considering whether a project is “routine” or “non-routine” to requiring the applicant to demonstrate how the total package of incentives requested is tailored to address the project’s risks and challenges.

- Incentive Return on Equity (ROE):
  - Applicant must take all reasonable steps to mitigate risks before seeking an incentive ROE.
  - Applicant seeking an incentive ROE must commit to cost containment in the application, but FERC is open to how an applicant structures that commitment.