Report on Transmission Cost Allocation for RTOs and Others

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Highlights of Recent Report (1)(2)

• Projected Transmission Investment.

• Issues with Transmission Cost Allocation Methods.

• Examples of Innovative Cost Allocation Methods.

• Conclusions.

Report Title and Where to Find It —


NERC Expects:

- About $10 billion per year going forward.
- An increase of 31,400 circuit miles or about 8% by 2018.

The Brattle Group found more than $120 billion worth of planned and conceptual transmission projects.

Much higher than historic patterns: ~ 2$B in 90s.
Drivers/Issues

• Transmission cost allocation: “who pays what” can determine whether transmission lines are built or not.

• Cost allocation can be contentious across multi-state paths.

• Several RTOs and transmission providers have experimented with innovative cost allocation strategies.
Cost Allocation Requirements:

Clear for Interconnection and Reliability Upgrades but not for Economic or Policy Upgrades.

• **Interconnection:** Facilities to tie new generation to the network -
  • Generators generally pay for direct connection lines, but can be reimbursed over time for network upgrades.

• **Reliability Upgrades:** Facilities to serve load reliably and to meet NERC reliability requirements -
  • 100% paid for by load;
  • Important - transmission congestion is not necessarily alleviated through reliability upgrades.
Cost Allocation Requirements: (cont.)

- Economic/Policy Upgrades: To access new generating resource areas, enhance competitive markets or to meet other policy requirements (RES) -
  - Typically has to meet cost-benefit test requirements;
  - May have to be included in regional transmission plan.

Few economic transmission projects have gone forward.

As a result, individual RTOs (e.g., CAISO, PJM) either have or are considering revamping transmission plans to include “public policy requirements.”
Some Innovative Approaches to Cost Allocation

[See NREL Report for greater detail.]
Dec 2010 FERC Approval for Multi-Value Projects (MPV). Must Be:

• Developed through the planning process to deliver energy reliably and economically and support state energy policy requirements.

• Provide multiple values including a benefit-to-cost ratio of 1.0 or greater.

• Must address one projected NERC standard violation.

Costs: MPVs allocated to all load on a postage-stamp basis.
BPA-Non RTO

Bonneville Power Administration: Network Open Season —

Started in 2008 to reduce overloaded queue issues:

• Annual open season where customers sign an agreement and provide refundable deposit.

• BPA does cluster study and financial analysis to see if they can move forwarded on embedded rates.

• If rates would be greater than embedded costs, agreement would be considered terminated.
Proposed FERC Rule on Transmission Planning and Cost Allocation

• Transmission providers and RTOs must incorporate public policy requirements into transmission plans (e.g., state RPS policies).

• Every transmission provider must:
  • Participate in regional transmission planning;
  • Coordinate with neighboring regional transmission planning processes;
  • Propose transmission cost allocation criteria that may differ by type of transmission project (e.g., reliability, economic, or public policy-driven).
• FERC to impose a transmission cost allocation methodology on a case-by-case basis if a region cannot reach agreement.

• Strong indication that FERC will propose “beneficiary pays” transmission cost allocation.
Conclusions

• This has been “highlights only”. See the Report for more topics and greater detail.

• The US appears to be posed for significant transmission expansion after years of low growth.

• Cost allocation criteria clear for interconnection and reliability-driven transmission projects, but not for economic transmission projects.

• RTO’s and others have proposed innovative cost allocation methods.
Conclusions (Cont.)

• New proposed FERC transmission rule incorporate public policy requirements into transmission planning.

• FERC can step in and offer a transmission cost allocation method if the region does not.

• FERC appears to be leaning towards “Beneficiary pays” approach
Questions?

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