



# FEDERAL ENERGY REGULATORY COMMISSION

STATEMENT

June 17, 2010

**Docket No.** RM10-23-000

**Item No.** E-9

**Chairman Jon Wellinghoff**

## **Statement of Chairman Wellinghoff on Transmission Planning and Cost Allocation Notice of Proposed Rulemaking**

"Today the Commission takes the next step in enhancing the efficiency and effectiveness of wholesale energy markets by proposing reforms to the rules under which public utilities plan, and recover the costs, for transmission expansion. Changes driven by customer needs, emerging technologies, and new entry dictate that the Commission continually evaluate the rules governing transmission services and wholesale market operations. Today's proposed revisions to transmission planning and cost allocation are responsive to such changes, and build upon work started three years ago in Order No. 890, which created a framework for an open and transparent planning process that enables stakeholders, including independent transmission developers and those seeking to use technologies in new ways, to propose alternative solutions for consideration in the planning process. Last fall, Commission Staff completed a series of conferences held around the country to review how well those rules are meeting the needs of our Nation, and to collect input as to how the Commission can improve upon the regional planning processes. Thoughtful Comments were submitted in response to questions that Commission Staff posed as a follow-up to those conferences. The action the Commission is taking today is a natural progression in its efforts to support reliable and robust grid development.

A significant aspect of today's proposal is the proposal to require that transmission planning take into account public policy mandates, such as renewable portfolio and efficiency standards at the state level. These policy-driven mandates are leading to significant changes in the resources used to serve customers. By proposing to incorporate public policy mandates into the transmission planning process, we seek to ensure that these legal requirements are met in a way that is fair and efficient to transmission customers. This proposed reform therefore complements the requirements of Order No. 890, pursuant to which transmission providers must engage in resource-neutral evaluations of all potential solutions, including demand resources and emerging technologies. Our proposal does not, however, supplant local or "bottom-up" planning; rather, we seek to build on existing local and regional transmission planning processes to increase their effectiveness. Nor does our proposal seek to interfere with the operation of state or local laws or regulations.

Further, our proposal to remove provisions from FERC jurisdictional documents that provide an incumbent utility with an undue advantage over non-incumbent transmission project developers acts to expand, rather than limit, options for transmission development that will enhance competition and control costs to consumers. It will also allow for more efficient use of capital and promote new transmission solutions.

Another significant aspect of today's proposal relates to the allocation of transmission costs. By proposing to tie cost allocation to the regional transmission planning processes, we seek to facilitate the transition from planning to implementation in a way that again builds on existing processes. The touchstone of today's proposal is the cost causation principle, ensuring that only those consumers benefiting from transmission facilities are charged for associated costs. Our proposal does not impose a uniform method for allocating the costs of transmission, nor does it dictate how benefits are to be derived or evaluated. Rather, the proposal allows each region the first opportunity to develop cost allocation mechanisms and identify for itself how the benefits of transmission facilities are to be determined.

For many regions of the country, the pressing need for reforms on issues of transmission planning and cost allocation is being driven by a shift in the type of generation resources being developed in response to state renewable portfolio standards. However, the challenges facing the integration of renewable energy resources are not limited to the build out of transmission. The variability of certain renewable resources poses new operational challenges that can be managed not only with conventional generation resources, but also with such complementary technologies as electricity storage and demand response. There is also significant technological innovation that will impact the use and



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operation of the electric grid including the smart grid and electric vehicles.

The Commission has acted in recent months to address these challenges and support the development of complementary technologies by implementing proceedings on the integration of variable energy resources and on the appropriate level of compensation for demand response in the organized wholesale electric markets. We issued a Policy Statement on Smart Grid laying the regulatory foundation for technologies that will improve the efficient and reliable operation of the transmission system and those that will offer consumers tools to manage their energy bills. Our staff is monitoring the industry-wide process of developing interoperability standards for the smart grid, which we expect to be brought to the Commission in the coming months for review and approval. Moreover, Commission staff is exploring additional ways to address these challenges by seeking comment and hosting technical conferences on matters ranging from the compensation mechanisms for energy storage, to the tying of compensation for particular ancillary services to a resource's responsiveness, to efficiency improvements through improved modeling and optimization of electric system dispatch and planning. And, as we will discuss later in this meeting, staff is presenting today the National Action Plan on Demand Response, which represents the culmination of 18 months of work to identify strategies and activities to support realization of the Nation's demand response potential.

The results of these discrete efforts, when brought together as a whole, comprise this Commission's Strategic Plan, and are intended to improve the efficiency of wholesale electric markets, by removing undue discrimination and other barriers to competition, so that prices to consumers of wholesale electricity are just and reasonable.

I am therefore pleased to support today's Proposed Rule on transmission planning and cost allocation reforms, and encourages thoughtful and candid comments on the proposals by interested parties."