

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

<b>Preventing Undue Discrimination and Preference in Transmission Service</b>	) ) ) ) )	<b>Docket Nos. RM05-25-000 RM05-17-000</b>
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**Prepared Technical Conference Remarks  
of Joel deJesus on behalf of National Grid USA**

On behalf of National Grid USA (“National Grid”), I would like to thank the Commission for this opportunity to discuss the important issue of transmission planning. Over the last several years, National Grid has devoted substantial resources in the development of transmission planning processes in the various regions of the US. It was directly involved in the development of the New England and New York planning processes, and it is still active in the discussions concerning the MISO and PJM planning processes. Out West, National Grid is also active in the WECC stakeholder process and was a significant contributor to the RMA Ts planning study and the planning for specific Western projects.

**I. The need for regional transmission planning**

The need for regional transmission planning has arisen in virtually every major electricity policy proceeding in the past several years.<sup>1</sup> In fact, almost exactly 5 years

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<sup>1</sup> The question of transmission planning has been central to the Commission’s investigation of new coal resources in Docket No. AD05-3-000; its investigation of transmission needs for new wind resources in Docket Nos. AD04-13-000 and EL05-80-000; its policy statements and rulemaking on transmission pricing, independence and investment in Docket Nos. RM06-4-000, AD05-5-000, and PL03-1-000; and its investigation on concerning long- term transmission rights in Docket No. RM06-8-000.

ago (on October 16, 2001) in the pre-SMD workshops, our then-director of transmission strategy, now chief operating officer for US transmission, Masheed Saidi, testified on this very topic.

Planning for a robust transmission grid is critical both for eliminating the potential for undue discrimination and to fulfill the clear mandate of EPAct 2005 to facilitate infrastructure development. Planning for a more robust transmission grid will help to ensure reliability and reduce costs to customers. It will also facilitate federal and state renewable power goals and will help protect the nation's energy security. It is, therefore, not surprising that, while many comments focus on the Commission's planning proposal, no party appears to reject the notion of regional transmission planning.

## **II. Key improvements upon the planning proposal in the NOPR**

In various proceedings, National Grid has outlined several key elements for a robust transmission planning process. While the NOPR proposal incorporates many of these elements, there are three elements in particular that National Grid would submit as significant improvements on the NOPR proposal: (1) comprehensive planning criteria must address a wide variety of transmission needs, including both reliability and economics; (2) there should be a clear commitment by transmission owners to build

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National Grid also has raised the issue of appropriate transmission planning before the Interagency Task Force on Electricity Competition and in various regional capacity market proceedings. *See* Comments of National Grid, submitted to the Electric Energy Market Competition Interagency Task Force, and filed in FERC Docket AD05-17-000, <http://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=10887937> (November 18, 2005 with errata on November 22, 2005); *see also* RPM Technical Conference Statement of Mary Ellen Paravalos, Director of Regulatory Policy for National Grid USA, filed in Docket Nos. EL05-148-000 and ER04-1410-000, *et al.*, <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=10959124> (February 23, 2006); Motion to Intervene and Comments of National Grid USA, filed in Docket Nos. EL05-148-000 and ER04-1410-000, <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=10852704> (October 19, 2005) (seeking greater coordination between PJM's reliability pricing model for capacity payments and regional transmission expansion planning).

projects identified in the plan; and (3) provisions for cost allocation should facilitate the construction of new transmission.<sup>2</sup>

With respect to the first, the planning process should incorporate broad based criteria for assessing need that include both reliability and economics (as well as other benefits: environmental, efficiency, etc.). A broad look is required to ensure that the most efficient transmission solutions to a wide variety of these needs are identified. Just as the Commission is considering a “regional” process to capture this efficiency among diverse transmission systems, so, too, should the Commission mandate a broad review of a variety of public needs. A narrow focus on reliability needs will not capture the very real benefits of congestion reduction. The mere “study and reporting” of congestion information will not suffice. For example, in New York, the NYISO’s planning process looks at reliability only, and much like the NOPR proposal, the NYISO commits only to publish historic congestion information. Yet despite the clear economic benefits identified by DOE in its recent congestion study associated with relieving constraints in New York State, the NYISO planning process recently concluded that no transmission is needed for reliability purposes beyond a few projects already included in the transmission owners’ individual system plans.<sup>3</sup> While proponents of this “hands off” approach to planning suggest that the market will somehow send signals to build needed transmission, that is not occurring, and customers are paying dearly for the lack of a properly planned transmission grid.

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<sup>2</sup> For a comprehensive comparison of National Grid’s proposed planning process elements against the NOPR proposal, please see Attachment A.

<sup>3</sup> The NYISO is also relying on market-based generation projects to meet identified reliability needs during the current planning period.

With respect to our second point, there has been considerable debate in the comments on the “obligation to build.” In our view, the Commission should address the commitment and authorization on the part of transmission owners to build the projects in the regional plan. As described in National Grid’s comments, this element should provide:

Authorization of Construction – The planning process should outline roles and responsibilities for constructing all new transmission identified pursuant to the system plan. The process should include provisions for construction of regulated transmission if, after a predefined period (*e.g.*, 1 year window), merchant/market projects have not addressed needs in a timely manner. The transmission owner should be obligated to undertake the transmission enhancements identified in the plan, subject to reasonable conditions such as a condition that the costs of such projects are recoverable, and may authorize third parties to construct if work cannot be commenced in timely fashion.

In the absence of such a commitment, there is no guarantee that transmission will be built – even with a good planning process. While many commenters object to the imposition of an “obligation to build,” those objections may start with the pessimistic view that the regional plan will produce unneeded or speculative projects or that the process will not be nimble enough to address real world changes in planning assumptions. Based on our experience with planning in New England and elsewhere, that pessimism is exaggerated. We have not seen a spate of speculative projects, and we generally have more faith in the planning process. A well designed planning process with broad stakeholder input provides the necessary scrutiny and reasoned basis for moving forward with a project – a marked contrast to the truly speculative view that the market on its own will produce the best results for customers. Moreover, for transmission owners, a properly designed commitment to build would address concerns such as the recoverability of planned investment costs.

Finally, perhaps the most contentious aspect to planning new transmission is how the costs will be allocated. While the Commission would be well-served not to dictate to each region a specific cost allocation method, the Commission can eliminate a lot of regulatory uncertainty and debate, which has inhibited both consensus on cost allocation and ultimately transmission investment, by establishing certain cost allocation principles.

These are:

1. A cost allocation method should be premised on the “beneficiaries pay” principle.
2. Neither direct assignment nor broad socialization should be the default method for all facilities, but the regions should strive for a mix of these approaches to ensure that the costs of planned transmission are fairly allocated and that the transmission will be built.
3. A cost allocation method should include a pragmatic way to categorize new facilities *ex ante* based on their function and a reasonable approximation of the beneficiaries of such types of facilities.
4. Case-by-case categorization/analysis of each project and the constant reevaluation of cost allocation over the life of a project should be avoided.

As with provisions for a commitment/authorization/obligation to build, the absence of a predetermined cost allocation method greatly inhibits the ability of regional planning to foster actual transmission construction. Due to the sheer number of projects typically found in regional plans, it is impractical to debate cost allocation on a project-by-project basis. For example, the New England regional system plan for 2005 lists 272 projects totaling approximately \$3 billion.<sup>4</sup> Without New England’s pragmatic approach to allocating costs, we would probably spend more time debating “which of these projects is for reliability purposes vs. economic purposes” and “what portions of the costs of each project should be allocated to whom” than we would spend actually building the projects.

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<sup>4</sup> See ISO New England Inc. Regional System Plan 2005 at 20, <http://www.iso-ne.com/trans/rsp/2005/05rsp.pdf> (October 20, 2005).

### **III. Other points**

National Grid's comments on the NOPR in this proceeding address several other points: to encourage independent administration of the planning process through incentives, to define congestion broadly, to extend the requirements for open and transparent planning to inter-regional planning, and to avoid mandating open seasons for joint transmission ownership. I would be happy to address these points in the question and answer session, but would otherwise respectfully request that the Commission read our comments on these points (as well as the summary provided in Attachment A).<sup>5</sup>

In addition, I look forward to discussing the specific questions raised in the notice for this technical conference, but offer these thoughts:

#### **Q1. What is the appropriate geographic scope for an effective planning region or subregion?**

A1. A utility's footprint would be an appropriate geographic scope for subregions, but regions should be set more broadly. The scope of a region should be dictated by what is generally understood as the economic, technical, and political/siting limits of long distance projects. The Commission has defined regions in this manner in the context of RTO development, establishing joint boards, etc., and the Commission should take a similarly pragmatic view in this context. What the Commission should not do is have regions grow and shrink on a project-by-project or annual basis. Once the regions are set, the Commission should look at inter-regional planning.

#### **Q2. Are there specific criteria that can be developed to define the scope and frequency of the congestion studies proposed in the NOPR?**

A2. Congestion should be assessed annually, and in a way that allows for real apples-to-apples comparisons. As noted above, the planning process should go beyond mere publication of a congestion study, and as noted in our comments, the Commission should take a broad view of what constitutes congestion that includes more than just energy price differentials between regions in energy prices, but should include consideration of

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<sup>5</sup> Comments of National Grid USA, filed in Docket No. RM05-25-000 and RM05-17-000, <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=11105226> (August 7, 2006). ("National Grid's NOPR Comments")

capacity costs, reserve costs, ancillary services costs, production costs, access to diverse resources and supplies, access to renewable resources and supply adequacy.

**Q3. Is an independent consultant necessary to facilitate planning?**

A3. As noted in National Grid’s comments, independent oversight is valuable in that it helps to have someone to balance competing interests within and among utilities and stakeholders and to manage confidential information. It also provides an avenue for bringing in planning expertise. The Commission should continue to encourage independence, and if the Commission does not require independent oversight in planning, the Commission should at least recognize the value of such independence in its “equivalent and superior to” analysis and in its award of incentives under Order No. 679.

**Q4. What are some effective mechanisms for safeguarding confidentiality while permitting meaningful access to transmission information?**

A4. An independent entity can help ease concerns of non-affiliated entities and public power about providing certain information -- thus inviting greater participation by such entities and increasing the totality of data available for planning to the benefit of customers. Alternatively, many regions have confidentiality provisions built into their tariffs, planning procedures, operator agreements or market rules.

**Q5. How should the planning obligation be coordinated with state processes?**

A5. The states should participate in the planning processes to bring their individual perspectives into the regional discussions. In general, greater coordination is needed between transmission planning and state policies. As noted in National Grid’s recent white paper -- “Transmission and Wind Energy: *Capturing the Prevailing Winds for the Benefit of Customers*,” [http://www.nationalgridus.com/non\\_html/c3-3\\_NG\\_wind\\_policy.pdf](http://www.nationalgridus.com/non_html/c3-3_NG_wind_policy.pdf):

By the end of 2005, 22 states had RPS or similar programs. In order to optimally and efficiently expand the nation’s transmission system, these RPS programs should be factored into regional planning as inputs to likely future system needs and conditions.

The problem of aligning transmission infrastructure benefits with funding and siting reveals itself at the state level. Regulatory policies that do not allow for certain and prompt recovery of costs at the retail level for transmission investment to meet regional reliability and economic needs are a further obstacle to that investment. State cooperation for transmission cost recovery and for prompt siting approvals, along with support for robust regional planning processes, is paramount to achieving

necessary levels of transmission investment. A good example is the resolution that the regional states committee in the PJM region established in December 2005. The resolution recognized the importance of regional state cooperation regarding the operation and improvement of the interconnected transmission system and encouraged investment in the electric transmission network to ensure the economic vitality of the region.

**Q6. If an open season requirement is added for large new transmission projects, what conditions or limitations should be associated with it?**

A6. The Commission should not consider such an open season. Joint ownership arrangements are best left to negotiations of the parties without government interference or “thumbs on the scale.” Joint ownership arrangements take time to develop and enforce, and a mandate of joint ownership would further balkanize the ownership of the transmission grid. Open seasons and RFPs would delay transmission construction. Finally, not only would a mandate for joint ownership constitute a taking, but it would be inconsistent with recently expressed Commission policy under Order No. 679 – at PP.356-57 (rejecting mandatory joint ownership) and at P.277 (rejecting mandatory RFPs).

**Q7. Can the proposed regional planning requirement achieve its goals if the participants in the regional planning process have not achieved agreement among themselves on appropriate cost-allocation issues? If not, what can be done to encourage the development of such cost allocation agreements among regional planning participants?**

A7. No, the proposed regional planning requirement will not achieve its goals if the participants in the regional planning process have not achieved agreement among themselves on appropriate cost-allocation issues. While the Commission should not tell regions how to allocate their costs, the Commission should require utilities in each region to come up with cost allocation proposals (either under a single regional tariff or under complementary individual utility tariffs) that can be assessed against specified guidelines outlined above.

**Q8. What is the appropriate role for demand response in planning?**

A8. Just like state renewable policies, demand response must be a key feature of the analysis in the planning process. Any need case for a new transmission line should adequately account for robust demand response programs where such programs exist.

## CONCLUSION

National Grid respectfully requests that the Commission consider the foregoing remarks in developing its final rule in this proceeding.

Respectfully submitted,

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## **Attachment A**

# **Key Elements for Transmission Planning**

Key Elements for Transmission Planning	Description	OATT Reform NOPR Proposal and National Grid's NOPR Comments
<b>Comprehensive Planning Criteria (Economics, Reliability, and Other Needs)</b>	<p>The planning process should include explicit criteria to determine system needs to ensure reliability and economic efficiency and should consider:</p> <ul style="list-style-type: none"> <li>• transmission service and interconnection requests</li> <li>• upgrades needed to meet minimum reliability standards</li> <li>• market facilitation and reduction to barriers to trade</li> <li>• access to economic power supply alternatives</li> <li>• reduction of market mitigation or generator reliability compensation</li> <li>• economic reduction of congestion</li> <li>• locational capacity payments associated with any applicable capacity market design</li> <li>• deliverability of resources</li> <li>• improving fuel diversity, including facilitation of renewables</li> <li>• environmental performance</li> </ul>	<p><b>Partially addressed</b> The NOPR at P.217(8) proposes only to require the transmission provider to prepare studies on “significant and recurring congestion.”</p> <p>In National Grid’s NOPR Comments at 10-16, National Grid urged the Commission to expand its proposal by broadly defining congestion and making clear that transmission providers must undertake actual planning of solutions to relieve congestion (and not just studies to quantify congestion).*</p>

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\* Comments of National Grid USA, filed in Docket No. RM05-25-000 and RM05-17-000, <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=11105226> (August 7, 2006). (“National Grid’s NOPR Comments)

Key Elements for Transmission Planning	Description	OATT Reform NOPR Proposal and National Grid's NOPR Comments
<p><b>Comprehensive Planning Criteria (Anticipating System Needs)</b></p>	<p>Given the often long lead times for transmission construction, and to ensure that transmission needs are able to be identified and constructed prior to the need date, the planning process should have a long time horizon from 5 to 15 years, or longer when significant changes (e.g. in fuel mix) are reasonably contemplated.</p> <p>The planning process should study a wide range of cases covering future scenarios in order to effectively manage uncertainty in:</p> <ul style="list-style-type: none"> <li>• new generation</li> <li>• availability of generation</li> <li>• generation retirement</li> <li>• demand growth</li> <li>• advanced technologies</li> <li>• fuel prices and availability</li> <li>• other factors affecting the electric system</li> </ul> <p>In evaluating potential improvements, the transmission provider should consider the benefits and costs of the improvement, recognizing that changes to the transmission system in almost all circumstances will impact economic and other market aspects as well as the reliability of the system.</p>	<p><b>Not Addressed</b> The NOPR at P.218(c) inquires about “whether there should be a specific study process to identify opportunities to enhance the grid for purposes beyond maintaining reliability or reducing current congestion.”</p> <p>In National Grid’s NOPR Comments at 10-16, National Grid urged the Commission to require that planning comprehensively takes into account both reliability and economic needs through established criteria and actively assesses those needs <i>well into the future</i>. As a transmission provider plans for upgrades to the transmission system to address reliability needs, it must take into account anticipated congestion decreases or increases resulting from such upgrades as well as anticipated long-range economic needs (such as trunklines to regionally needed new generator sites).</p>

<b>Key Elements for Transmission Planning</b>	<b>Description</b>	<b>OATT Reform NOPR Proposal and National Grid's NOPR Comments</b>
<b>Authorization for Construction</b>	The planning process should outline roles and responsibilities for constructing all new transmission identified pursuant to the system plan. The process should include provisions for construction of regulated transmission if, after a predefined period (e.g. 1 year window), merchant/market projects have not addressed needs in a timely manner. The transmission owner should be obligated to undertake the transmission enhancements identified in the plan, subject to reasonable conditions, such as a condition that the costs of such projects are recoverable,** and may authorize third parties to construct if work cannot be commenced in timely fashion.	<p><b>Not Addressed</b> The NOPR at P.205 notes the obligation to build to meet specific customer needs under very specific conditions (e.g., with respect to P-t-P transmission, the obligation is only to use due diligence and only after the customer agrees to participant fund the requested upgrade), but there is no provision to ensure that the projects identified as needed in the planning process will actually get built (esp. if no one customer requests that the project be built agrees to participant fund the project).</p> <p>In National Grid's NOPR comments at 19-22, National Grid urged the Commission to require that transmission providers incorporate into their planning procedures provisions to ensure that planned projects actually get built.</p>

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\*\* Schedule 3.09(a) of the New England Transmission Operating Agreement is an example of a list of the types of conditions, including cost recovery, which would apply to a transmission provider's obligation to build. This agreement was approved by the Commission. *ISO New England, Inc, et al.*, 106 FERC ¶61280 at P.213 (2004), *order on reh'g*, 109 FERC ¶61,147 at P. 162 (2004). The current version of this agreement can be found here: [http://www.iso-ne.com/regulatory/toa/transmission\\_operating\\_agreement.pdf](http://www.iso-ne.com/regulatory/toa/transmission_operating_agreement.pdf).

<b>Key Elements for Transmission Planning</b>	<b>Description</b>	<b>OATT Reform NOPR Proposal and National Grid's NOPR Comments</b>
<b>Cost Allocation and Recovery</b>	<p>The planning process should include upfront pragmatic transmission cost allocation rules for regulated transmission built pursuant to the system plan. Ideally, there should be a commitment and a clear path to ultimate cost recovery through wholesale and retail rates, including allowance for abandoned plant associated with the regional plan. Cost allocation rules should recognize the broad and diffuse benefits that are often associated with an upgrade, and may incorporate a mix of regionally spread (postage stamp), locally assigned (license plate), and participant funding mechanisms (for sole-use facilities).</p>	<p><b>Not Addressed</b> The NOPR at P.218(a) only seeks comment “on whether there should be a principle or guideline to govern the recovery and allocation of costs associated with funding the regional planning requirement.”</p> <p>In National Grid’s NOPR comments at 19-22, National Grid urged the Commission to require transmission providers to include in their planning procedures provisions to identify how costs of planned projects will be allocated based on these general cost allocation principles:</p> <ul style="list-style-type: none"> <li>• A cost allocation methodology should identify clear cost categories into which new facilities costs will be divided and pursuant to which the costs will be assigned to various customer classes who benefit from the new facilities determined <i>ex ante</i> based on a functional analysis of the new facilities with neither direct assignment nor broad socialization being the default methodology for all facilities.</li> <li>• A cost allocation methodology should include a pragmatic way to categorize new facilities functionally based on the above-mentioned cost categories and a reasonable approximation of the beneficiaries of such types of facilities.</li> <li>• Case-by-case cost allocation analysis of each project and constant reevaluation of cost allocation over the life of a project should be avoided.</li> </ul>

<b>Key Elements for Transmission Planning</b>	<b>Description</b>	<b>OATT Reform NOPR Proposal and National Grid's NOPR Comments</b>
<b>Open and Transparent Process</b>	The planning process must be timely, well-defined, and documented with timelines and process steps delineated. The process should be carried out in an open manner, with the ability for meaningful input by industry and market participants including regulators, generators, suppliers, and customers at all stages of the process. An open stakeholder process with regular meetings should review planning assumptions, criteria, and results in sufficient detail to facilitate meaningful understanding and input.	<p><b>Addressed</b> The NOPR at P.214 proposes to require “coordinated, open, and transparent planning.”</p> <p>In National Grid’s NOPR Comments at 7-8, National Grid urged the Commission not to be prescriptive as to the format and frequency of regional stakeholder meetings.</p>

<b>Key Elements for Transmission Planning</b>	<b>Description</b>	<b>OATT Reform NOPR Proposal and National Grid's NOPR Comments</b>
<b>Regional Governance and Independent Oversight</b>	<p>It should be noted that one further refinement on the Commission's planning policies would be to move to a more regionally focused and independently administered process rather than one administered by each transmission owner. A more regional planning process would allow for the assessment of needs for reliable operations and more efficient competition over a broader regional footprint and would identify more efficient planning solutions that could not be identified in the more limited footprint of any individual transmission owner. While this may entail structural reforms which may be out of the scope of this proceeding as noted above, an independently administered, regional planning process is something the Commission should address through transmission rate reforms as part of the Commission's required rulemaking on incentives for new transmission.</p>	<p><b>Partially addressed.</b> The NOPR at P.214(7) requires regional coordination. With respect to independent oversight, the NOPR at P. 90 declines to mandate the establishment of an independent transmission coordinator, but the NOPR at P.215 encourages the use of an independent third party to oversee or coordinate the planning process.</p> <p>In National Grid's NOPR Comments at 17-18, National Grid urged the Commission to apply its planning requirements to inter-regional planning, too.</p> <p>In National Grid's NOPR comments at 8-10, National Grid urged the Commission to recognize that a planning process overseen by an independent entity is "consistent with and superior to" a planning without such oversight, and should encourage independent oversight through incentives consistent with Order No. 679 at P.322.</p>