

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

Electric Transmission Incentives Policy Under            )  
Section 219 of the Federal Power Act                    )                    Docket No. RM20-10-000

**COMMENTS OF R STREET INSTITUTE**

The R Street Institute (“R Street”) appreciates the opportunity to submit its comments on the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Notice of Proposed Rule Making (“NOPR”) in the above docket. The R Street Institute is a nonprofit, nonpartisan public policy research organization whose mission is to promote free markets and limited, effective government. The Commission proposes to revise its existing transmission incentives policy and corresponding regulations.

**I. Summary of R Street Position**

R Street has been actively involved in the FERC’s investigations into incentives to encourage investment in the transmission system. R Street applauds FERC’s focus on the customer and the benefits they will receive in building out the transmission system. Too often the customer is not part of the decision-making process when they are the ones that are paying for multi-billion-dollar transmission investments. But the number of adders that are available to transmission projects is already quite generous and should be examined before handing out more customer dollars for these ventures. The 250-basis point cap is a good start, but there needs to be a stop to the layering of incentives, as it is not attracting new and innovative technologies. It is merely handing out more money to continue with the existing state of affairs. R Street agrees

with the Commission that the energy industry is experiencing a transformation, and FERC needs to be at the forefront of this transformation setting up a regulatory paradigm that can usher in new innovations and technology. Return on Equity (“ROE”) incentives need to be awarded to encourage innovation and prepare the electric grid for new technologies, not to award the status quo. Any enhancements to the electric grid need to include more than just ROE incentives; for new technology to be pushed forward, FERC must look to other models to properly incentivize innovation. FERC must seek to encourage low-cost, high-benefit transmission projects. The traditional cost of service model for this type of innovation is outdated and not set up to encourage innovative, lower-cost technology; it is setup to reward those that use current, proven technology with higher rate base book values. The incentive is to build new lines, not to optimize the existing system. Optimizing the system through better digital monitoring and control systems can reduce congestion and improve performance of the transmission system. A white paper prepared by the Working for Advanced Transmission Technologies (“WATT”) Coalition stated that deployment of advanced technologies in the transmission system could save customers as much as \$2 billion per year.<sup>1</sup> Although the NOPR looks at this with a 100-basis point adder for new technologies, this is not enough to retool the transmission system. Transmission grid enhancements need more than just ROE incentives for innovation to be pushed forward. The cost of service model currently in use can limit transmission owners’ investment in innovative technology and lead them to stick with the current available systems. FERC needs to look at what new transmission technologies can offer customers and the best ways to get those technologies to them. This NOPR should be a short-term fix for a system that is not prepared to launch the nation’s transmission grid forward. As part of this rulemaking, R Street requests

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<sup>1</sup> “Bringing the Grid to Life: White Paper on the Benefits to Customers of Transmission Management Technologies” Working for Advanced Transmission Technologies Coalition by Rob Gramlich, March 2018

FERC to open a proceeding to explore a market-based cost recovery model to expand the nation's transmission system to benefit customers through new innovation and technology that will lead to lower costs for customers by bringing lower cost generation onto the grid and lower congestion on existing lines.

## **II. Comments**

In the NOPR the Commission put forth nine proposed changes to its transmission incentive policy. Overall R Street believes FERC needs to encourage innovation and new technologies to improve the transmission system; the current cost of service model is ill-prepared to do that. That said, this NOPR should only be considered a short-term fix, there needs to be a more holistic look at the best way to build the best system for end-use customers.

FERC's first proposal to focus on benefits to customers is long overdue. FPA section 219(a) states that incentive-based rates are for the purpose of benefitting customers by ensuring reliability and reducing congestion.<sup>2</sup> Too often customers are marginalized, being addressed in neutral terms such as "load" and not thought of as the users and ultimate payers for these systems. They must be given the proper recognition in the decision-making process.

FERC proposes up to 100-basis-point ROE incentive for projects that provide economic benefits. This on its face seems absurd, as any project should pass a cost-benefit analysis prior to approval. Increasing ROE for something that should already be happening does not incentivize transmission projects to be more cost effective. Instead, FERC should only approve transmission projects that provide sufficient economic benefits. If a project does not provide a significant economic benefit, FERC needs to consider if the project is needed at all or force a competitive

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<sup>2</sup> Order No. 679, 116 FERC ¶ 61,057 at PP 1

solution to the project. R Street understands that FERC is shepherding a transformation by switching from risks and challenges to a benefits-based paradigm, but it needs to look at changing the underlining cause—not throw more money at the problem. Transmission projects requiring reliability improvements sometimes provide both quantitative and qualitative benefits. Only then can both aspects be factored into the overall scope of the project when evaluating it. A cost benefit analysis should be included in any and all applications, but an application should not be rewarded for providing cost benefits. If FERC does decide to implement an incentive, then it should be limited to a single 50-basis-point ROE adder for projects that exhibit a benefit-to-cost ratio in the top 10 percent of transmission projects at the time of transmission project completion.

R Street is glad to see that the Commission is concerned with costs and proposes a 250-basis-point cap on the total ROE adders. This is a positive step to help limit costs to customers, but the Commission needs to look more closely to see if layering these ROE incentives actually attracts new investments of technology that benefits customers rather than unnecessary investment at customers' expense. The purpose of these incentives should not be to fulfil minimum requirements but to make sure a project is benefitting customers. The reduced ROEs FERC Ordered in Opinion 569 for cases EL14-12-003 and EL15-45-000<sup>3</sup> give some hope that FERC is committed to keeping transmission project ROE at a more reasonable level. However, there is a concern that incentives could be increased at a later date to make future ROE unjust and unreasonable. Project investors need certain incentives to engage in projects and ROE incentives are one way to achieve that incentive. But current and possible future ROE incentives need to be capped at 200 basis points.

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<sup>3</sup> 169 FERC ¶ 61,129

The NOPR proposes elimination of the incentive for standalone Transmission Companies (“Transcos”). R Street agrees that at one time this may have been an incentive for utilities to separate transmission activities from generation and distribution, but that was 15 years ago. Much has changed since this incentive was developed, and it is no longer an incentive for utilities to create separate transmission entities in an effort to spur investment in transmission. Currently, utilities are switching their focus from distribution and generation to transmission. In fact, transmission investment nearly doubled between 2011 and 2018.<sup>4</sup> Incentives need to provide a reason to put capital to more productive use, not divert additional customer resources to projects that would be built regardless.

Regional Transmission Organizations (“RTO”) provide a number of benefits to transmission owners and customers alike. For transmission owners, they offer more projects in which to invest, including improving wholesale market efficiencies and the expansion of renewable generation. For customers, they offer billions of dollars in cost savings<sup>5</sup>. Once transmission owners join an RTO, it is a difficult and costly process to leave. Given that, the ROE adder for RTO membership is not an incentive for transmission owners to stay in the RTO. As stated above, an incentive needs to encourage productive investment. A better way to utilize this 100-basis-point incentive is to award RTO membership for joining an RTO and for up to three years after joining. This would incentivize joining and/or creating new RTOs, which would then benefit the Transcos and customers both.

The deployment of advanced transmission technologies is essential to improving the efficiency of the electric grid and reducing customer costs. This is where the incentives need to

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<sup>4</sup> <https://www.statista.com/statistics/1081249/transmission-investment-utilities-independent-developers-us/>

<sup>5</sup> <https://www.brattle.com/news-and-knowledge/publications/transmission-solutions-potential-cost-savings-offered-by-competitive-planning-processes>

be focused. Advanced technologies deserve the incentive because transmission owners currently look to more capital-intensive investments such as poles, wires and capacitors. There needs to be a fundamental change in the way transmission owners go about planning projects for new and existing facilities. R Street commends the Commission for the efforts put forth in this NOPR but finds that the proposal is lacking a vision for the future. The Commission needs to shift the focus from capital investment and the return earned off that investment to a new model for cost recovery of these projects. Changing the behaviors of transmission owners that have been ingrained for decades should be done through a separate proceeding that can fully examine different cost recovery models with a focus on market-based solutions. New low-cost generation needs to be considered in this proceeding. Any proceeding would need to examine not only existing transmission assets but expansion of lines to bring lower-cost generation to the wholesale markets.

### **III. Conclusion**

Transmission rate policies are important to the future of the nation's electric grid. There needs to be consideration for improving existing transmission facilities and expanding the grid to allow lower-cost generation to participate in the wholesale markets. As the transmission system evolves to integrate new technologies, the ratemaking system too should evolve to introduce new technologies and properly incentivize those technologies. Proper ROE to investors needs to be balanced between appropriate investment to bring the transmission into the 21<sup>st</sup> century and beyond while making sure the true beneficiary is the end-use customer.

Respectfully Submitted

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July 1, 2020