An Overview of Participant Funding

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- Non-independent Transmission Providers (TPs) and independent RTOs/ISOs were permitted to deviate from Order No. 2003 requirements using either the “regional differences” or “consistent with or superior to” standard.
- Order No. 2003 allowed independent RTOs and ISOs more flexibility to customize their interconnection processes through the “independent entity variation” standard to meet their regional needs.

Network Upgrade Funding Options under Order No. 2003

- In Order No. 2003, FERC set forth two general policies for assigning costs associated with interconnection-related network upgrades:
  - Crediting Policy: For non-independent TPs, FERC continued its current policy to provide transmission service credits for the cost of required Network Upgrades; and
  - Participant Funding Policy: Independent RTOs/ISOs may propose participant funding for required Network Upgrades, which costs are assigned directly to the interconnection customer (IC)

- These policies continued FERC’s general prohibition against “and” pricing
  - *This prohibition provides that, when “a Transmission Provider must construct [interconnection-related] Network Upgrades to provide new or expanded transmission service, [FERC] generally allows the Transmission Provider to charge the higher of the embedded costs of the Transmission System with expansion costs rolled in, or incremental expansion costs, but not the sum of the two.”*

Differences Between the Two Pricing Policies

Crediting Policy	Participant Funding Approach
Credits for the cost of required Network Upgrades are granted to the IC *only if:* • the project has achieved commercial operation and delivery service begins; and • the Network Upgrades are constructed and the IC has paid for them.	Refers to the direct assignment to an IC of the costs of Network Upgrades that would not be needed *but for* the IC's project.
	Not "and" pricing if, for example, the IC is allowed to receive well-defined rights created by the Network Upgrades.

Rationale Behind the Crediting Policy

- Ensures IC will not be charged twice for the use of the Transmission System:
  - It is appropriate for the IC to pay initially for Network Upgrades;
  - Once the generator commences operation and delivery service begins, the IC must receive transmission service credits against transmission delivery service taken with respect to the Generating Facility.
- Ensures the IC will be treated comparably to the non-independent TP's own generating facilities; and
- Is intended to enhance competition by promoting construction of new generation, particularly in areas where barriers to entry may still be significant.

Rationale Behind the Crediting Policy (cont.)

- IC’s upfront payment is simply a financing mechanism designed to facilitate the efficient construction of Network Upgrades.
- The purpose of upfront financial payment is two-fold:
  - Providing TP with a source of funds to construction Network Upgrades, the IC’s upfront payment alleviates any delay that might result if the TP were forced to secure funding elsewhere.
  - By placing the IC initially at risk for the full cost of the Network Upgrades, provides the IC with a strong incentive to make efficient siting decisions and, in general, good faith requests for Interconnection Service.

Rationale Behind Participant Funding

- Under a well-designed and independently-administered process, Participant Funding offers the potential to provide more efficient price signals and a more equitable allocation of costs than the crediting approach.
- Where FERC has permitted Participant Funding for an RTO/ISO with locational pricing, the IC bears the cost of all “but for” facilities and upgrades and, in return, the IC receives valuable transmission rights for those “but for” costs.
- May provide the pricing framework needed to overcome the reluctance of incumbent transmission owners to build transmission.

Example of Participant Funding As Applied in PJM

- <u>PJM is an independent RTO</u>. FERC is less concerned that all ICs will not be treated comparably because an RTO has no incentive to treat ICs differently.
- <u>PJM uses locational pricing</u>. Provides an IC incentives to locate new generation in an efficient fashion.
- <u>PJM grants ICs well-defined, long-term and tradeable rights</u>. Firm Transmission Rights (FTRs) and Capacity Interconnection Rights (CIRs) in exchange for "but for" cost payment, as well as Incremental rights such as Incremental Auction Revenue Rights (IARRs) and Incremental Capacity Transmission Rights (ICTRs) for any incremental capacity created by Network Upgrades.
- <u>IC is ensured full deliverability throughout PJM</u>. IC does not have to purchase transmission service to deliver its output to any point in PJM.

ANOPR – Potential Reforms

- Does participant funding still fit the new mix?
  - The significant upgrades necessary to accommodate geographically remote generation were not contemplated when FERC established the interconnection pricing policy.
- In the ANOPR, FERC identified several flaws with participant funding:
  - 100% of the costs of network upgrades are allocated to the IC without accounting for the significant benefits those upgrades may provide to transmission customers;
  - Capacity rights may not fully compensate the IC for the broad range of benefits the upgrades provide to the transmission system.

- Benefits of eliminating participant funding:
  - Potentially increases integration of generation by removing the possibly prohibitive participant funding cost assignment
  - Potentially reduces the queue backlogs and relatedly the number of interconnection requests that have withdrawn from the queue due to significant network upgrade costs
- If participant funding is eliminated, should FERC require cost-sharing for shared upgrades?

Can a Crediting Policy Work in PJM?

- <u>Current crediting policies used by non-independent TPs</u>.
  - IC receives transmission service credits against transmission delivery service taken with respect to the Generating Facility.
- <u>The current crediting policies would not be applicable to PJM's existing interconnection process</u>. All ICs interconnecting to the PJM transmission system are granted full deliverability throughout the PJM Region. There are no separate charges for transmission service in PJM.
- If crediting against transmission service is not applicable to PJM, is there any other crediting mechanism that would make sense?

Possible Alternative Interconnection Cost Responsibility Options (in no particular order)

- State underwriting for transmission to particular renewable-rich areas as identified by queue requests
- Baseline upgrades for transmission to particular renewable-rich areas as identified by queue requests
- Option for TOs to treat upgrades as supplemental projects
- Baseline upgrades for DOE-identified congestion corridors per Energy Policy Act of 2005
- Enhanced merchant funding for new transmission to renewable-rich areas
- Subscription Option for Generators

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