



RECOMMENDATIONS FROM GRIDWORKS' WESTERN STATES TRANSMISSION INITIATIVE

OCTOBER 2023

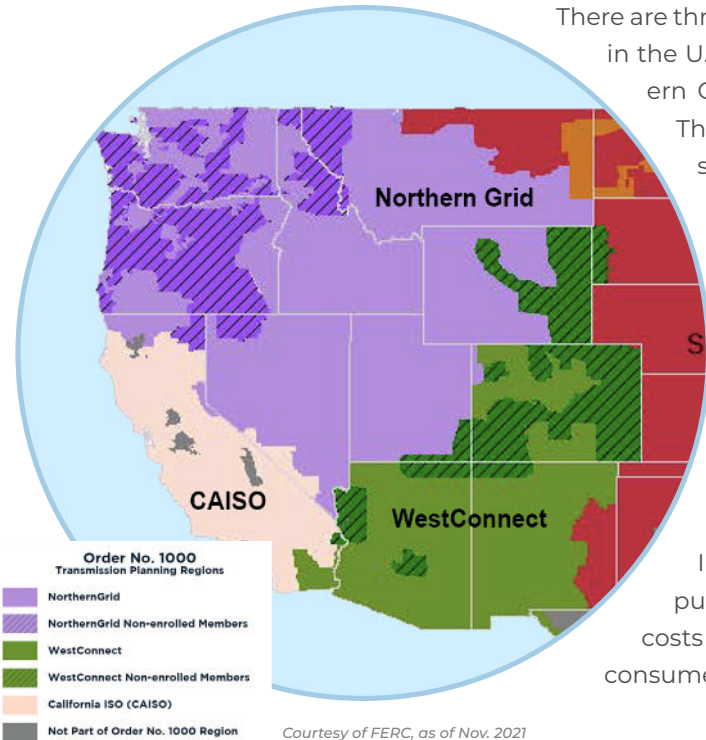


BACKGROUND

Planning for new electric transmission projects can take a number of forms. Utilities often develop and build transmission facilities to satisfy particular needs in their service territories. Likewise, two or more utilities sometimes jointly develop a transmission project to serve their respective customers. In both instances, when investor-owned utilities in the United States are vertically integrated, state regulators typically oversee utility cost recovery of transmission investments. Some companies develop “merchant” transmission facilities. Investments in merchant projects are mostly recovered through utilities and electric generators that subscribe to the new transmission capacity. To reduce risk associated with merchant projects, the California ISO has developed a new model (the Subscriber Participating Transmission Owner model) that enables merchant projects outside of California to participate as a transmission project within the ISO and recover costs through subscribers without having to be chosen pursuant to the ISO transmission planning process.

The Federal Energy Regulatory Commission (FERC), in response to concerns that utility-by-utility transmission planning might not capture the benefits associated with regionally planned projects, in 2011 issued Order No. 1000. This regulation requires FERC-jurisdictional utilities to engage in regional transmission planning but does not actually mandate regionally planned transmission to be built unless the planning region decides to proceed. Projects that result from FERC Order No. 1000 regional transmission planning processes must be competitively bid unless state right of first refusal laws give utilities an exclusive right to build the project or portions thereof.

Order No. 1000 also required each transmission planning region to obtain FERC-approval of a cost allocation mechanism for regionally planned transmission that is built. However, Order No. 1000 notes that states can negotiate their own cost allocation agreement that differs from the FERC-approved regional cost allocation. This has occurred on several occasions in different parts of the country. FERC Order No. 1000 also requires interregional transmission consideration, but very little planning has occurred between the transmission planning regions to date.



There are three FERC-approved transmission planning regions in the U.S. portion of the Western Interconnect: (1) Northern Grid, (2) WestConnect, and (3) the California ISO.

The Northern Grid transmission planning utilities serve Washington, Oregon, Idaho, and portions of Montana, Utah, Wyoming, Nevada, and a small part of California. The WestConnect transmission planning utilities serve Arizona, Colorado, and portions of New Mexico, Wyoming, Utah, and most of California that is not part of the ISO. Some of the Northern Grid and WestConnect utilities are not FERC-jurisdictional but participate in the regional planning efforts on a voluntary basis.

Ineffective regional transmission planning, the pushback associated with attempts to allocate the costs of transmission projects among different sets of consumers, and the difficulties transmission developers

face in receiving governmental permits are typically identified as the three main barriers to transmission development. FERC last year issued a Notice of Proposed Rulemaking aimed at enhancing regional transmission planning and improving the current approach to allocating the costs of regionally planned transmission. That proposal remains pending. Congress is currently considering legislation to give FERC additional transmission siting authority and there are other efforts, both legislative and administrative, to improve the process for siting transmission that traverses federal land, which is often seen as a key barrier to transmission development in the West.

Gridworks, on behalf of the [Western States Transmission Initiative \(WSTI\)](#), has to date interviewed approximately 40 different organizations in the West, including state regulators, American and Canadian utilities, independent power producers, tribal entities, and non-governmental organizations, about the state of electric transmission development in the Western Interconnect. These conversations focused primarily on the processes through which transmission projects are planned in the Western Interconnect and potential approaches to allocating the costs of multistate¹ transmission lines.

Although we heard a variety of opinions on these and other subjects, there was substantial agreement that the current approach to transmission planning in the West, particularly outside of California and a relatively narrow set of specific intra-state or intra-utility transmission investments, is failing to lead to the development of sufficient levels of transmission capacity that could lower customer rates, improve grid reliability and resilience, reduce congestion, and address projected demand for power throughout the Western Interconnect. In addition, the planning that does take place often ignores potential longer-distance, multi-state/provincial transmission lines that could offer more benefits to the region. FERC's potential involvement in allocating the costs of multistate transmission projects has served as one impediment to meaningful interconnection-wide transmission planning in the West.

¹ The term "multistate transmission" includes transmission that traverses multiple states and/or Canadian provinces.



There are currently several ongoing discussions in the West aimed at improving the conditions for additional transmission development. This paper offers a set of recommended actions the Western states and provinces – particularly the regulatory commissions and energy offices that comprise CREPC – could take to improve the environment for transmission development in the Western Interconnect. These recommended actions are briefly outlined below.

After the Members of CREPC have the opportunity to evaluate these recommendations, either CREPC or a group of state and provincial regulators and energy officials could choose to act upon any or all of them. A proposed process for further exploration and implementation is provided at the end of this document.

PRIMARY RECOMMENDATIONS

A. Form a CREPC Transmission Working Group – A number of stakeholders we interviewed recommended the states and provinces in the West coordinate more frequently and share information regarding transmission needs and opportunities. CREPC should consider establishing a Working Group and seek U.S. Department of Energy (DOE) funding to hire expert staff and consultants to facilitate greater understanding of, and better communication between the states, provinces, and stakeholders in the region on, Western Interconnect transmission topics. The Working Group would focus on the following actions as well as consider and implement recommendations B – D in the near term, and E and F in future years:

- Data gathering on and modeling of the need for transmission solutions (as well as non-transmission alternatives) to address reliability, resilience, economic, and public policy goals, including review of existing and pending transmission studies and sponsoring new transmission planning and cost allocation studies.
- Informal review of regional and interregional transmission planning within the Western Interconnect.
- Different approaches for sharing the costs associated with multi-state transmission projects.
- Levels of support for specific proposed transmission projects and potential barriers to their development.

B. Seek U.S. Department of Energy Assistance to Identify Interregional Transmission Projects – CREPC should seek U.S. Department of Energy (DOE) funding to enable CREPC to hire an outside consulting firm with significant transmission planning experience to provide an investment-grade analysis of significant transmission needs in the Western Interconnect. Based on the results of the consultant's analysis, CREPC could consider asking DOE to identify at least five multistate transmission lines that provide the greatest benefits in the Western Interconnect. Further, DOE should be called upon to help examine potential non-transmission alternatives that could supplement the benefits that might be achieved by new transmission construction.

The U.S. Department of Energy could also consider designating these lines as National Interest Electric Transmission Corridors (NIETCs). DOE by statute is required to designate NIETCs. As DOE explains: “NIETCs are geographic areas where electricity limitations, congestion, or capacity constraints, are adversely affecting electricity consumers and communities.” A transmission project located in an NIETC is eligible for federal financial, technical, and permitting assistance to presumably facilitate transmission development in the corridor.

C. State Cost Allocation Coordination – Reaching consensus on how the costs of multistate transmission projects should be shared between utilities can be very difficult and often acts as a barrier to transmission development. Cost allocation is even more difficult in the West because of the significant amount of governmental and other public power utilities and Canadian utilities that are not subject to FERC jurisdiction. FERC currently requires each transmission planning region to apply a regionally developed approach for sharing the costs of regionally planned transmission. Although FERC gives each region a significant amount of leeway in designing their cost allocation approach, the Commission can only approve mechanisms that ensure that costs are allocated in a manner roughly commensurate with benefits. States and other stakeholders can also agree outside of the FERC planning process on a cost allocation mechanism. Because there have been no regionally planned transmission projects in the West outside of the California ISO to date, the Western states have generally not had to grapple in a meaningful way with transmission cost sharing. However, as the demand for multistate transmission projects rises, the need to figure out who benefits, who should pay, and how much will become increasingly important. These disagreements could derail potentially valuable projects. The Western Interstate Energy Board (WIEB) has engaged the U.S. Department of Energy in seeking funding to help the Western states better understand how other regions in the U.S. have taken on transmission cost allocation. CREPC should support WIEB’s efforts to: (1) survey how the costs associated with multistate transmission projects and cross-border transmission projects have been allocated in the Eastern Interconnect and ERCOT (Texas), and (2) facilitate consideration of the best approaches for cost allocation of multistate, including transnational, transmission projects in the Western Interconnect.

D. Host a Western Transmission Conference – CREPC or a CREPC Transmission Working Group should consider hosting a Western transmission conference with participation from American and Canadian federal, state/provincial, local, and tribal/Indigenous government officials, including land managers, utilities, transmission developers, generation developers, reliability organizations, Order No. 1000 regional planning entities, transmission experts, and public interest organizations. This conference would seek input on the following topics:

- Whether the region’s transmission grid will be sufficiently robust to meet reliability, economic, and public policy goals.
- The amount of additional transmission capacity that might be needed in the region to satisfy future demands on the grid.
- Whether increased transfer capacity between the three FERC transmission planning regions or between the Western Interconnect, the Eastern Interconnect, and ERCOT is needed.
- What cost-effective non-transmission alternatives might be available.
- Whether existing transmission planning and cost allocation considerations appropriately take into account the views of all affected parties.

FUTURE POTENTIAL ACTIONS

E. Improve Transmission Planning Processes – A significant number of stakeholders expressed a lack of confidence in the existing FERC-required regional transmission planning processes run by Northern Grid and WestConnect. The concerns ranged from the fact that neither entity has put forth a regionally planned transmission project for development, to assertions that the regional utilities do not have sufficient incentives to facilitate regionally planned transmission projects. FERC is currently considering

a proposal to modify and improve the Commission's current requirements for regional transmission planning. CREPC should monitor this proceeding and, assuming FERC issues a final rule, explore with other stakeholders whether additional Interconnect-specific changes are needed to ensure that transmission planning in the Western Interconnect is sufficiently: (1) forward looking; (2) independent; and (3) inclusive.

F. Seek Greater Transmission Investments by Federal Utilities – Both the Bonneville Power Administration (BPA) and the Western Area Power Administration (WAPA), which market hydropower produced at federal dams, own and operate a significant amount of high voltage transmission in the Western Interconnect. BPA, for instance, controls more than 75% of the high voltage transmission system in the Pacific Northwest. Both BPA and WAPA are situated within the U.S. Department of Energy and have statutory authority and federal government financing to construct and operate transmission facilities under certain circumstances. CREPC should consider working with the Department of Energy and the Power Marketing Administrations to encourage BPA and WAPA to use all authorities at their disposal to plan, develop, finance, and build additional transmission projects in the Western Interconnect that the relevant transmission planning region deems will provide substantial benefits in terms of enhancing grid reliability and resilience, reducing congestion, and enabling states to achieve their public policy goals.

CREPC PROCESS AHEAD

As CREPC considers the above recommendations to improve transmission development in the Western Interconnect, Gridworks proposes the following process for further consideration and implementation of these recommendations:

- **July-September 2023.** *Engage willing regulators and energy office leaders to provide feedback on potential recommendations from Gridworks. (complete)*
- **October 2023.** Presentation of engagement efforts and Gridworks' proposed recommendations to full CREPC body, including process for further exploring and implementing any of the recommendations. CREPC body provides feedback to the CREPC Co-chairs regarding their interest in pursuing the recommendations and process for implementation. Co-chairs determine whether to move forward. **(underway)**
- **November 2023.** CREPC's willing regulators and SEO leaders signal an intent to move forward in implementing recommendations by:
 - Announcing the formation of a CREPC Transmission Working Group,
 - Launching efforts to request DOE's technical assistance in identifying important transmission corridors in the West, including by collaborating with leaders of other transmission planning efforts currently emerging in the West, and
 - Leveraging CREPC consultants to:
 - Develop an investment-grade transmission study for the West,
 - Develop a cost allocation study for the West,
 - Support the formation and implementation of a CREPC Transmission Working Group, and
 - Support state participation in other transmission related efforts.