

ITC Comments on the Liaison Committee's List of Questions

Introduction

The Regional State Committees of the MISO and SPP regions (OMS and SPP RSC) have established a collaborative framework to analyze issues along the RTO seams and identify potential solutions. The Commissioner-led initiative seeks to increase benefits to ratepayers of RTO participation, ensure proper interregional planning processes are in place, and support RTO efforts to improve resource interconnection. The effort is led by four Commissioners from each region known as the “Liaison Committee” with the support from the OMS and SPP RSC boards of directors.

At the request of the Liaison Committee, MISO and SPP prepared a whitepaper summarizing the history of important seams issues, their current status, and ongoing efforts to make improvements. The paper also highlighted several areas of philosophical differences and outstanding disagreement. A copy of the whitepaper can be found on the SPP RSC website at: <https://www.spp.org/organizational-groups/regional-state-committee/spp-rscoms-liaison-committee/> or the OMS website at: http://misostates.org/images/stories/Filings/SPP_RSC_Documents/SPP-MISO-RSC-OMS-Response_SPP_MISO-FINAL-on-website-Nov13.pdf.

The Liaison Committee now seeks input from a wider group of stakeholders. Interested stakeholders are asked to provide their reaction to the whitepaper, responses to the specific questions listed below, and any additional information they believe would be helpful for the Liaison Committee to consider. Wherever possible, please try to quantify the economic impact of issues. **Please direct written responses and questions to Adam McKinnie at adam.mckinnie@psc.mo.gov by January 10th. Responses are limited to 5 pages in length.**

Questions

1. What do you believe to be the single most important/impactful seams issue and what barriers are preventing resolution? If applicable, include two to four additional priority items the regulators should focus on.

ITC Answer: The key barrier preventing recognition and resolution of current and future grid needs is the lack of defined policy goals that support industry trends, including a changing generation mix, electrification of certain sectors of the economy, and corporate renewable targets. State Regulators are uniquely positioned to shape how the grid evolves to facilitate this future. Proactive, holistic transmission planning—both within regions and across seams—is needed to cost-effectively build the transmission grid that meets our future energy needs. The continued incremental approach to transmission planning will likely impose higher long-term costs on customers. For example, consider the current size of the generator interconnection queues in MISO and SPP (82 and 85 GW, respectively, at present). An efficient transmission plan would enable optimal location of these resources (locations that are often distant from load) and cost-effectively deliver to load the energy produced from these new resources, whether within or across regional boundaries. Instead,

transmission system upgrades needed to accommodate the transition in the generation fleet are planned on a piecemeal basis with costs shifted to generators, resulting in a less than optimal number and location of generators and a solution that overlooks reliability and resilience benefits that could be realized with a more holistic approach. Proactive transmission planning can also cost-effectively address other drivers for regional and interregional transmission, including the need for an increasingly resilient grid and the changing nature of electric consumption. Where, when, and how much energy customers consume is changing because of factors as diverse as electric vehicle penetration and proliferation of large data and manufacturing centers. Given these and other factors that are transforming the industry, a barrier to identifying an optimal, cost-effective transmission plan to meet these evolving needs is the lack of a common view of what the future holds. There is an opportunity for State Regulators to lead on regional and interregional transmission planning by providing their view of future transmission system needs.

A portfolio-style approach to regional and interregional transmission planning requires leadership to help guide MISO and SPP (and their stakeholders) to a common way of thinking about the future and defining transmission issues that need to be addressed. This common view may facilitate resolution of other barriers, such as cost allocation. The application of cost allocation for regional and interregional projects appears to be a giant stumbling block within and among regions. Who benefits and may pay for a project ends up dictating the depth and breadth of transmission planning, which should not be the case. Although cost allocation provisions are in place for cross-border projects, the practical matter is that states on either side of the seam have varying reasons for not believing the benefits of these projects will accrue to them and therefore do not want to be allocated costs. While FERC Order 1000 attempted to facilitate regional and interregional transmission development by requiring the regions to establish an *ex ante* cost allocation methodology, cost allocation remains controversial. Further complicating matters is FERC's use of regional cost allocation as a trigger for the RTOs' competitive developer selection processes, which adds complexity and uncertainty. State Regulators can facilitate identification and resolution of seams (and regional) issues by shaping a common view of the energy future, the transmission needed to enable that future, and how the costs of that transmission should be allocated.

In addition to the actions State Regulators can take, there are process improvements the RTOs can undertake to help address seams issues. An element of holistic transmission planning is holistic consideration of the benefits transmission provides. ITC believes that the RTOs should continue to evaluate expansion of the benefit metrics used in the planning process; to the extent a benefit can be objectively measured and is not overlapping, it should be included when evaluating projects. For example, when considering the economic benefits a project may provide, we estimate that Adjusted Production Cost captures only about 70 to 80 percent of those benefits. Other metrics could include reduced energy losses, reduced settlement charges under the Joint Operating Agreement, and deferred expansion of generation capacity due to increased import/export limits, as examples. Additionally,

consideration of multiple need drivers within the process is needed to allow for the most cost-effective projects to advance. The planning process should recognize that regional and interregional projects will simultaneously provide reliability, economic, policy, and resilience benefits. In addition to allowing the most cost-effective projects to advance, a comprehensive accounting of benefits helps ensure costs can be fairly assigned to those who benefit. It is also imperative that reforms to the interregional planning process be put in place to facilitate identification and selection of interregional projects, which include the use of:

- common (or better-aligned) models
 - common evaluation metrics
 - a clear path for including projects in the respective regional plans that are jointly planned and deemed beneficial
2. How should the RTOs weigh the benefits of more efficient seams operation against focusing on maximizing intra-RTO efficiencies and operation?

ITC Answer: Operational improvements can be made both within the RTOs and across the seams that can improve the efficient transfer of energy. The key is that improvements are made in a coordinated fashion between the RTOs. Operational issues are largely the result of piecemeal transmission planning; going forward, the emphasis should be on improving the process to identify and develop transmission projects that optimize the transfer of energy across the seam and maximize operational and consumer benefits.

3. What areas of the whitepaper do you agree and disagree with? Why?

ITC Answer: The whitepaper does a good job of setting up the historical context for why things are the way they are today in the regions. However, the whitepaper lacks a forward-looking discussion on the ways in which the regions' planning processes must change to identify and build needed seams projects. Future topics this workgroup should examine are identification of the transmission needs in the two regions—the projects needed to enable State Commissions' vision for the future energy grid—and how each region can eliminate barriers to development of transmission that meets these needs.

4. Are there seams issues that you believe were left out?

ITC Answer: The whitepaper acknowledges the obstacles facing interregional transmission projects and discusses lessons learned from the Coordinated System Plan process. Absent from this are the next steps to address these obstacles. There needs to be further discussion/analysis on how to eliminate barriers to getting needed, cost-effective transmission identified and studied, how to allow for each region to advance the needs of their respective region to the collective group, and how a chosen project meeting those needs will be cost-allocated.

5. What seams issue(s) require additional analysis and study prior to solution identification? What should the goal of such an analysis/study be and what metrics or other measurable information should it include?

ITC Answer: As described above, a piecemeal/incremental approach to studying transmission needs and identifying transmission solutions is not an efficient or cost-effective way to plan the expansion of the transmission grid. Any analysis/study must broadly consider the benefits of interregional transmission and how the efficient transfer of power across seams facilitates continued evolution in the generation fleet and an increasingly reliable and resilient grid.