

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

**Inquiry Regarding the Commission's
Electric Transmission Incentives Policy**

Docket No. PL19-3-000

INITIAL COMMENTS OF PPL ELECTRIC UTILITIES CORPORATION

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PPL Electric Utilities Corporation (“PPL Electric”) hereby submits initial comments in response to the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Notice of Inquiry Regarding the Commission’s Electric Transmission Incentives Policy.¹

I. INTRODUCTION

Transmission is the backbone of the electric grid. The strength and reliability of the transmission system is critical to providing electric service to customers. The evolution and adoption of renewable energy resources, electric vehicles, and state environmental policy makes it more important than ever to encourage the maintenance, development, and expansion of the transmission system to reduce congestion, enhance reliability, and promote efficient operations. This necessarily requires ratemaking policies that enable transmission owners to attract capital to invest in their systems. Operating a transmission system is inherently risky. Transmission owning utilities face many challenges, including emerging challenges in RTO governance and state siting of transmission lines. Transmission incentives help to balance these risks and promote in-

¹ *Inquiry Regarding the Commission’s Electric Transmission Incentives Policy*, Docket No. PL19-3, 166 FERC ¶ 61,208, Mar. 21, 2019 (“Incentives NOI”).

vestment in transmission projects in accordance with the goals Congress laid out in the Federal Power Act.²

PPL Electric is a Pennsylvania corporation and a wholly owned subsidiary of PPL Corporation. PPL Electric serves approximately 1.4 million customers in 29 counties and maintains about 50,000 miles of power lines, including more than 5,000 miles of transmission lines, in central and eastern Pennsylvania. PPL Electric is a founding member of PJM Interconnection, L.L.C. (“PJM”) and participates as an active member in the PJM transmission owner sector. PPL Electric distributes electricity to retail customers in its service territory and is a provider of last resort under Pennsylvania’s Electricity Generation Customer Choice and Competition Act. PPL Electric is a load-serving entity (“LSE”) in PJM and is a signatory to the PJM Consolidated Transmission Owners Agreement, the PJM Operating Agreement, and the PJM Reliability Assurance Agreement. In 2019, PPL Electric was named Investor-Owned Utility of the Year by the Smart Electric Power Alliance for contributing to the electric power industry’s smart transition to a clean, modern energy future.³

Every time PPL Electric invests in needed transmission infrastructure, it puts its brand, reputation, and image on the line. These investment risks should be reflected in the returns to transmission investment, including the transmission incentives at issue in this NOI. Historically, FERC-regulated transmission investment has been competitive with other potential utility investments and FERC’s transmission incentives have helped attract additional necessary investment in the transmission system. It is vital that the Commission retains its longstanding policies that ensure adequate returns reflecting the real risk and choices involved in investing in

² See 16 U.S.C. § 824s.

³ Smart Electric Power Alliance, *SEPA’s 2019 Power Player Award Winners*, Jun. 12, 2019, <https://sepapower.org/knowledge/sepas-2019-power-player-award-winners/>.

transmission and that the Commission consider new incentive policies that promote investment in critical infrastructure projects.

II. BACKGROUND

In the 2005 Energy Policy Act, Congress required the Commission to “establish, by rule, incentive-based (including performance-based) rate treatments for the transmission of electric energy in interstate commerce by public utilities for the purpose of benefitting consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion.”⁴ Congress required a rule designed to (1) promote “capital investment in the enlargement, improvement, maintenance, and operation of all facilities for the transmission of electric energy in interstate commerce,” (2) “provide a return on equity that attracts new investment in transmission facilities,” (3) “encourage deployment of transmission technologies,” and (4) “allow recovery of . . . all prudently incurred costs”⁵ Additionally, Congress stated that “the Commission *shall* . . . provide for incentives to each transmitting utility . . . that joins [an RTO or ISO].”⁶ In response to this statute, the Commission issued Order No. 679.⁷ In Order No. 679, the Commission addressed the need for new transmission investment by approving use of transmission incentives when an “applicant has justified its specific incentive request.”⁸ The Commission laid out numerous incentives it would grant to utilities to incentivize investment in transmission.⁹

After more than a decade of experience with incentives policy under Order No. 679 that demonstrates the importance of those incentives to transmission investment, the Commission has asked for comments on updated policies and implementation details.

⁴ 6 U.S. Code § 824s(a).

⁵ 6 U.S. Code § 824s(b).

⁶ 6 U.S. Code § 824s(c) (emphasis added).

⁷ Promoting Transmission Investment through Pricing Reform, Order No. 679, RM06-4, 116 FERC ¶ 61,057, Jul. 20, 2006 (“Order No. 679”).

⁸ *Id.* at ¶¶ 15–20.

⁹ *See, e.g., id.* at ¶ 84 (providing incentives to all public utilities), ¶ 206 (providing incentives to Transcos), ¶ 326 (providing incentives to utility members of transmission organizations).

III. COMMENTS

A. Approach to Incentives Policy (Q1–16)

In the Incentives NOI, the Commission recognizes that Order No. 679 requires applicants for incentive rates to “demonstrate that there is a nexus between the incentive sought and the risks and challenges of the investment being made.”¹⁰ It asks whether this “risks and challenges” paradigm is the correct way to look at incentives, or whether instead the Commission should look at the expected benefits of the project, project characteristics, or something else.¹¹

As discussed in more detail below, the Commission should choose an all-of-the-above policy. It is important both (i) to retain the important incentives currently offered by the Commission based on the “risks and challenges” of constructing transmission projects, and (ii) to consider additional incentives based upon a wide range of factors including the expected benefits or characteristics of a project. Aside from a few incentives that should be ongoing (e.g., the RTO participation adder) or automatically granted (e.g., recovery of prudently incurred abandoned costs), the Commission should evaluate incentive requests on a case-by-case basis and award incentives when supported by the facts presented in the application. The reasons underlying an incentive can vary from project to project. In some cases, it may make sense for the Commission to incentivize projects that enhance reliability, security, or resiliency. In others, a systematic approach to reducing congestion using technology may warrant incentive treatment. Still elsewhere, the Commission may want to encourage interregional projects, or speculative projects aimed at connecting renewable generation. The Commission should adopt an approach that allows it to take into consideration all the factors the project addresses and to use incentives to promote project development. Importantly, the Commission should establish incentives based on

¹⁰ Incentives NOI at ¶ 14, *citing* Order 679 at ¶ 26.

¹¹ *See* Incentives NOI at ¶¶ 14–18.

its consideration of risks, benefits, and other project characteristics. The alternative is a limited menu of available options where beneficial projects are not incentivized merely because they do not fit neatly into a preconstructed box.

B. Incentive Objectives

1. Benefits of Incentives (Q17–25)

PPL Electric supports incentives tailored to address reliability benefits and efficiency benefits on a case-by-case basis. PPL Electric does not support bright line tests in most cases. Rather, the Commission should adopt a flexible approach where it is free to award incentive treatment for projects involving high risk investment, projects advancing public policy goals, projects utilizing technology creatively, or projects meeting other goals the Commission finds worthy of incentivizing.

2. Geographic Needs (Q26–28)

Incentives based on public policy needs, such as connecting new renewable generation, may include recognition that certain geographic areas such as corridors to wind resources should be prioritized. However, PPL Electric does not agree that incentives should be directly linked to geographic area *per se*. Instead, incentives should be awarded based on the needs driving the project (e.g., the public policy of connecting large amounts of otherwise unviable renewable generation resources).

3. Operations and Security Issues (Q29–33)

PPL Electric supports awarding transmission incentives for projects that enhance the flexibility characteristics of the transmission system. Investment in physical and cybersecurity is critical. However, the technology to address these issues is evolving. Accordingly, PPL Electric believes these flexibility characteristics should be evaluated on a case-by-case basis and that the

Commission should not lock in pre-set criteria given the changing nature of the grid and the demands on transmission utilities.

Similarly, PPL Electric supports awarding transmission incentives for enhancing the physical and cybersecurity of transmission facilities. PPL Electric believes that incentive requests for physical and cybersecurity enhancements should be evaluated on a case-by-case basis, rather than the Commission locking in pre-set criteria that may rapidly become obsolete given the quickly changing nature of security concerns on the transmission grid.

4. Resilience (Q34–36)

As it has informed the Commission elsewhere, PPL Electric supports the definition of resilience proposed by PJM:

The ability to withstand or reduce the magnitude and/or duration of disruptive events, which includes the capability to identify vulnerabilities and threats, and plan for, prepare for, mitigate, absorb, adapt to, and/or timely recover from such an event.¹²

Given the critical nature of resilience concerns in a world of increasing asymmetric threats to the transmission grid, PPL Electric strongly supports targeted use of incentives to enhance transmission resilience. PPL Electric echoes the comments of the PJM Transmission Owners that the Commission does not need to create specific incentives for resilience projects, but agrees that the Commission should consider resilience benefits in determining the appropriate level of incentives for a given project.¹³

5. Improving Existing Transmission Facilities (Q37–43)

PPL Electric supports the use of transmission incentives to encourage utilities to deploy technology to enhance the capacity, efficiency, and operation of the grid. PPL Electric supports

¹² Reply Comments of PPL Electric Utilities Corporation, Docket No. AD18-7 at 3–4, *quoting* Comments and Responses of PJM Interconnection, L.L.C., Docket No. AD18-7 at 9–10.

¹³ *See* Initial Comments of the PJM Transmission Owners, Docket No. PL19-3 (“PJM TO Comments”) at 26–27; *see also*, Initial Comments of the Edison Electric Institute, Docket No. PL19-3 (“EEI Comments”) at 6, 20.

evaluating requests for technology incentives and other incentives for improving existing transmission facilities on a case-by-case basis and considering the use of technology in determining the appropriate level of incentives for a particular project. PPL Electric does not support a stand-alone incentive for technology projects, but rather a wholistic approach that incentivizes technology solutions that offset other transmission spending or otherwise improve the capacity, efficiency, or operation of the grid. Such technology incentives should be evaluated on a case-by-case basis and treated on an equivalent basis to other transmission spending subject to incentives.¹⁴

6. Interregional Transmission Projects (Q44–46)

PPL Electric joins the comments of EEI and the PJM Transmission Owners to the extent they address incentives for interregional transmission projects.

7. Unlocking Locationally Constrained Resources (Q47–49)

PPL Electric supports incentives for transmission projects that will facilitate the interconnection of large amounts of renewable resources or other generation resources.¹⁵ Such incentives should be evaluated on a case-by-case basis considering factors including, but not limited to, the risk of the project (including the regulatory risk of siting), the amount and type of generation being unlocked, and the public policy of the state or states where the project exists.

PPL Electric believes that a generation project's existing position in the queue is irrelevant to the consideration of incentives for a transmission project designed to facility its interconnection, which in this case should be evaluated at the point in time the utility makes the incentives request.

¹⁴ See *id.* at 27–28.

¹⁵ See NOI at ¶ 31, *citing* 2012 Incentives Policy Statement, 141 FERC ¶ 61,129 at ¶ 21.

8. Ownership by Non-Public Utilities (Q50–51)

PPL Electric joins the comments of EEI and the PJM Transmission Owners to the extent they address incentives for projects owned by non-public utilities.

9. Order 1000 Transmission Projects (Q52–54)

PPL Electric supports incentives for Order 1000 transmission projects only to the extent necessary to place these projects on a level playing field or to put developers in the same position as incumbent utilities (e.g., through use of a hypothetical capital structure). PPL Electric does not support creation of specific incentives for Order 1000 projects or awarding incentives for those projects that are not available to non-Order 1000 projects.

10. Transmission Projects in Non-RTO/ISO Regions (Q55–56)

PPL Electric joins the comments of EEI and the PJM Transmission Owners to the extent they address transmission projects in non-RTO/ISO regions.

C. Existing Incentives

1. RTO Adder (Q57–66)

Section 219 of the Federal Power Act states that the Commission “shall . . . provide for incentives to each transmitting utility or electric utility that joins a Transmission Organization.”¹⁶ The Commission has recognized the importance of this incentive to encourage transmission owning utilities to join an RTO and further the benefits produced by RTOs as identified by the Commission in Order No. 2000.¹⁷ In the Incentives NOI, the Commission asks whether the RTO-participation incentive should be revised and if the incentive should be awarded for a fixed period time after a transmission owner joins an RTO.

¹⁶ 16 U.S.C. § 824s(c).

¹⁷ See Regional Transmission Organizations, Order No. 2000, RM99-2, 89 FERC ¶ 61,285, Dec. 20, 1999, at 70–71 (identifying “significant benefits of establishing RTOs: (1) RTOs would improve efficiencies in the management of the transmission grid; (2) RTOs would improve grid reliability; (3) RTOs would remove opportunities for discriminatory transmission practices; (4) RTOs would result in improved market performance; and (5) RTOs would facilitate lighter-handed governmental regulation”).

The Commission should reaffirm the availability of this important incentive and its availability to transmission owners who join and remain members of an RTO. PPL Electric supports the comments of the Joint PJM TOs outlining the many benefits of RTO membership and the risks of membership assumed by transmission owning utilities.¹⁸ Participation in an RTO comes with many risks for transmission owners:

- RTOs are governed by agreements defining the rights and responsibilities of the RTO and its transmission owning members. These agreements require a transmission owner to give up certain planning and operational functions to the RTO and subject the transmission owner to the regional interests represented by the RTO that may differ from those of the individual transmission owner.
- The agreements signed by a transmission owner when it joins an RTO are subject to change and can be amended with or without transmission owner support during the RTO stakeholder process. This results in the assumption of responsibilities by a transmission owner that can be substantially different than the responsibilities the transmission owner originally agreed to.
- Transmission owning utilities who join an RTO or ISO obligate themselves to develop projects where construction responsibility is assigned by the RTO through the planning process. As a result, the utility assumes the risks associated with a project it did not propose.

As Congress and the Commission have long recognized, utilities joining RTOs and ISOs should be compensated for these incremental risks, which are not faced by non-RTO utilities. The RTO-participation incentive appropriately balances the benefits RTO membership provides to custom-

¹⁸ PJM TO Comments at 14–21.

ers and the risks membership imposes on transmission owners. This important incentive should be retained and available to a transmission owner for the duration of its membership in an RTO.

Although PPL Electric has long supported the 50-basis point level for the RTO adder, the risks associated with utility membership in an RTO or ISO have increased as non-asset-owning stakeholders have asserted more control over governing documents, including over transmission operations, transmission planning, and transmission ratemaking issues.¹⁹ PPL Electric believes these increased risks support an argument that the RTO adder should be raised.

2. Advanced Technology (Q67–69)

In the Incentives NOI, the Commission recognized that not including a stand-alone transmission technology incentive meant few applications seeking an ROE adder for uses of technology in transmission development.²⁰ PPL Electric believes that, while explicitly laying out the terms of a specific technology incentive may be counterproductive, the Commission should reemphasize that it stands ready to reward the creative use of technology on the transmission system with incentive rates.

The Commission has long encouraged the deployment of advanced technologies that promote efficient transmission system operations, provide more reliable service, or offset otherwise necessary spending. It should make clear that such use of technology will be rewarded with incentive rates on a case-by-case basis when utilities make such a request. These technology incentives could take various forms including ROE adders, cost capitalization, regulatory asset treatment, or other appropriate mechanisms. PPL Electric specifically encourages the Commission to consider incentives that encourage the adoption of innovative solutions (including hardware

¹⁹ See, e.g., *Cost Containment Passes Members Committee*, INSIDE LINES, Jun. 25, 2018, <https://insidelines.pjm.com/cost-containment-passes-members-committee/>; *PJM Rejects Stakeholder Language on Supplemental Projects*, RTO INSIDER, Jan. 29, 2019, <https://rtoinsider.com/newsletters/2019-01-29-RTO-Insider.pdf>.

²⁰ Incentives NOI at ¶ 39.

or software) that offset the need to build new transmission projects, meet public policy goals, or promote the economic and efficient operation of the transmission system.²¹ For example, innovative vegetation management tools are being developed that could significantly decrease the ongoing expense of maintaining transmission corridors in heavily wooded areas. Incentive rates or allowing capitalization of costs could speed adoption of these tools by utilities.²²

3. Pre-Commercial Costs and CWIP (Q70–76)

In Order No. 679, the Commission authorized recovery of 100 percent of prudently incurred CWIP in rate base recognizing that this rate treatment provides regulatory certainty and alleviates the cash flow challenges that accompany transmission investment.²³ In the Incentives NOI, the Commission recognized that “100 percent of CWIP in rate base and recovery of 100 percent of pre-commercial costs as an expense or as a regulatory asset . . . reduce the financial and regulatory risks associated with transmission investment.”²⁴ CWIP can also offset rate shock. PPL Electric agrees that these tools are helpful in some circumstances to help utilities with regulatory certainty and to help customers avoid rate shock. The Commission has also recognized the benefits of CWIP and routinely grants requests for this incentive.²⁵

Given the Commission’s strong support for CWIP and the benefits to transmission owners and customers, the Commission should eliminate the need to seek prior approval for CWIP in rate base. PPL Electric encourages the Commission to authorize automatic inclusion of CWIP in rate base at the utility’s option, subject to reporting on Form 730.

²¹ See 16 U.S.C. § 824s (b)(1) and (3).

²² See PJM TO Comments at 29–30.

²³ Order 679 at ¶ 115.

²⁴ Incentives NOI at ¶ 40.

²⁵ See, e.g., *PPL Elec. Utilities Corp.*, 141 FERC ¶ 61021, Oct. 9, 2012, at ¶ 43 (authorizing 100 percent of CWIP in rate base because of potential risk of rate shock to consumers “when certain large-scale transmission projects come on line”).

4. Recovery of the Cost of Abandoned Plant (Q77–79)

In Order No. 679, the Commission authorized the inclusion of 100 percent of prudently incurred abandonment costs as an effective tool to reduce project risk and encourage development when the reason for an abandonment is outside of the control of the utility's management.²⁶ The Commission conditioned its authorization on a section 205 filing at the time a plant is abandoned to demonstrate the costs were prudently incurred.²⁷

PPL Electric echoes the comments of EEI and the PJM TOs and requests that the Commission consider revisions to its current policy to authorize automatic recovery of 100 percent of prudently incurred abandoned plant costs when the responsibility to construct a project is assigned to a utility by an RTO or by a government entity.²⁸ Projects assigned in this manner obligate a transmission owning utility to assume the substantial risk of constructing a project that may not be necessary to serve its native load, and which it may not have chosen to undertake on its own. Participating in an RTO-led regional planning process limits an individual utility's autonomy to decide when to invest in a specific project. As a result, automatic recovery of prudently incurred abandoned plant is not really an incentive, but a recognition of the circumstances of regional planning and the associated risks imposed on utilities.²⁹

If a utility invests money in a project planned by an RTO, and the project is subsequently cancelled by the RTO, the Commission should permit automatic recovery of all prudently incurred costs. There should be no temporal limitation based on the timing of a 205 filing to request the incentive. PPL Electric encourages the Commission to authorize automatic cost recovery at the utility's option for abandoned projects assigned to a utility by an RTO or by a govern-

²⁶ Order 679 at ¶ 163.

²⁷ *Id.* at ¶ 166.

²⁸ See PJM TO Comments at 21–25, EEI Comments at 15–17

²⁹ See PJM TO Comments at 23–24.

ment entity, subject only to a subsequent filing demonstrating that the costs have been prudently incurred.

5. Accelerated Depreciation (Q80–82)

PPL Electric joins the comments of EEI and the PJM Transmission Owners to the extent they address accelerated depreciation incentives.

D. Mechanics and Implementation

1. Duration of Incentives (Q83–89)

The Commission should grant an incentive based on the risks, benefits, and characteristics of the project established at the time the incentive is requested and the incentives granted should remain for the life of the project. PPL Electric urges the Commission not to eliminate incentives if a project fails to realize anticipated benefits unless it was clear at the time of the investment decision that the project was unlikely to be successful. FERC’s policy should be to incentivize expenditure of capital on appropriate projects, not merely to further reward good investments with the benefit of hindsight. Policing already incentivized projects and potentially removing incentives after the fact increases the risks associated with transmission and undermines Congress’s policy of encouraging additional transmission investment.

2. Automatic Review of Incentive Applications (Q90–92)

As stated elsewhere, PPL Electric believes certain incentives such as CWIP in rate base and abandonment should be granted automatically. PPL Electric supports case-by-case approval of other incentives as appropriate.

3. Combination of Incentives (Q93–95)

In Section 219 of the Federal Power Act, Congress instructed the Commission to adopt a flexible incentives policy that “promot[es] capital investment in the enlargement, improvement,

maintenance, and operation of all facilities for the transmission of electric energy.”³⁰ In Order No. 679, the Commission stated its intent to award incentives when justified on a case-by-case basis and to create incentives that meet the goals of Section 219 to ensure the reliability of the electric system. However, the Commission’s current policy prohibits total ROE (base ROE + incentives) from exceeding a relatively narrow zone of reasonableness.³¹ In the Incentives NOI, the Commission requested comments on the relationship between ROE and incentives and if total ROE should continue to be capped at the high end of the zone of reasonableness.³²

The Commission should revisit its policy of capping the total ROE at the high end of the zone of reasonableness. As noted by the PJM TOs, capping total ROE limits the ability of an electric utility to receive the full benefit of awarded incentives and this limitation will become more prevalent if the Commission creates additional incentives following this NOI.³³ The Commission should grant incentives to utilities who make transmission investments in, for example, high risk transmission projects, transmission projects that further public policy, and transmission projects involving innovative use of technology. The value of these incentives should follow the Commission’s incentives policy and should not depend on where the utility’s ROE—based on its own distinct and highly detailed analysis—falls in the zone of reasonableness. Congress has laid out a policy of incentivizing certain transmission investments. These investments have value that should be rewarded. The value should not be limited if the combined incentive rate exceeds the narrowly constructed zone of reasonableness.

³⁰ 16 U.S.C. § 824s(b)(1).

³¹ See *Martha Coakley v. Bangor Hydro-Elec. Co.*, 165 FERC ¶ 61,030, Oct. 16, 2018, at ¶ 17.

³² Incentives NOI ¶ 46, Q95.

³³ See PJM TO Comments at 30–31.

4. Bounds on ROE Incentives (Q96–97)

PPL Electric joins the comments of EEI and the PJM Transmission Owners to the extent they address bounds on ROE incentives.

E. Metrics for Evaluating the Effectiveness of Incentives (Q98–105)

PPL Electric joins the comments of EEI and the PJM Transmission Owners to the extent they address metrics for evaluating the effectiveness of incentives.

IV. CONCLUSION

PPL Electric appreciates the opportunity to comment on the important Transmission Incentives issues raised in the Incentives NOI and thanks the Commission for raising this important topic.

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June 26, 2019