



Before the Federal Energy Regulatory Commission

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Workshop on Shared Savings Incentives for Transmission Technologies
Docket Nos. RM20-10-000 and AD19-19-000

Panel 4:
Exploring the Role of RTOs/ISOs in the Deployment of Transmission Technologies

For Public Use

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PJM Interconnection, L.L.C. (“PJM”) appreciates this opportunity to share with the Federal Energy Regulatory Commission (“FERC”) and other interested parties thoughts regarding the appropriate role for regional transmission organizations and independent system operators (“RTOs”), like PJM, when an applicant seeks a shared savings incentive from FERC as is contemplated in this docket.

PJM understands the Shared Savings Proposal¹ as applying to all grid-enhancing technologies (“GETs”) deployments costing \$25 million or less. The proposal envisions different processes and requirements for shared savings incentives for small (<\$2.5 million) and midsize (\$2.5-\$25 million) projects, with small projects being submitted directly to FERC. For the midsize projects, the RTO would evaluate the benefits and costs of such proposals. According to the proposal, the RTO would select GETs shared-savings projects before traditional economic projects. The developer of approved projects would then apply to FERC for traditional rate-base cost of service recovery which would include a ROE on the total project investment and the RTO-approved share of the savings² generated by the project for an initial three-year time frame. Upon FERC approval, the incentive would be “paid” by the RTO based on already established regional cost allocation rules.

These brief remarks about the Shared Savings Proposal address some of the issues raised by FERC for discussion on this panel.³ There are a number of issues with this proposal that other speakers will inevitably address. However, from a PJM perspective, if adopted as proposed, PJM would be capable of facilitating FERC’s implementation of a shared savings incentive subject to the caveats and limitations noted below. PJM nevertheless encourages FERC to ensure that if a new shared savings incentive is devised, that it be implemented and administered in a way that avoids the planning process becoming a rate regulatory process. In short, PJM urges that, if adopted, this proposal’s implementation should not further complicate an already challenging regional planning process that delivers great value, particularly given the planning process’s requirement to timely address and maintain system reliability.

As a threshold matter, the Commission should address which entities will bear the risks and liabilities arising from the deployment of emerging transmission technologies on the transmission system. More specifically, clarification is needed as to the interaction of Order No. 1000’s competitive planning process with the reservation to the transmission owner for system upgrades. Where would the risk and consequence of technology failure or degraded performance rest in an instance where a developer installs the technology on a transmission owner’s facilities? The Commission should address how GETs placements by private developers would work under the Order No. 1000 paradigm.

¹ See generally *Electric Transmission Incentives Policy Under Section 219 of the Federal Power Act*, WATT Coalition and AEE Shared Savings Proposal, Docket No. RM20-10-000 (Sept. 3, 2020) (“Shared Savings Proposal”).

² See Shared Savings Proposal at 3. The Shared Savings Proposal contemplates the RTO “approving” the percentage of the shared savings each GETs developer proposes to recover as its incentive, *id.*, but this would appear to be a ratemaking function reserved to FERC.

³ These topics include: how benefit-cost analyses are conducted by PJM as part of its planning process; how such analyses might be utilized by applicants and FERC in the evaluation of a project’s request for a shared savings incentives; and whether potential transmission technology projects seeking a shared savings incentive must be evaluated in local or regional transmission planning and cost allocation processes.

In addition, notwithstanding the appeal of the Commission's proposal to switch to a benefits-based incentives approach, PJM is concerned that use of the shared savings approach, unless coupled with appropriate Commission guidance, could:

- Inject contentious ratemaking debates into already complex, value adding RTO/ISO planning processes by proposing that the RTO “approve” a “share of the savings generated by the project” and do so before selecting “traditional economic projects”⁴;
- Transform PJM's benefit-to-cost ratio determinations that were designed for use in the planning processes to evaluate the relative benefits of projects into some kind of future rate level guarantee;
- Give the perception of greater precision to the planning process's benefit-to-cost ratios (and creating an expectation that the forecasted benefits will perfectly converge with actual results over time); and
- Cause PJM to intrude on the Commission's role as the rate regulator by “validating” a proposed project's benefit-to-cost ratios, and serving as an “approver” of what ratio would be appropriate for each project to retain as a shared savings incentive.

Notwithstanding these concerns, with appropriate guardrails in place, RTOs like PJM can be in a position to facilitate the Commission's distinct ratemaking function if a shared savings incentive is enacted. Under PJM's current planning process PJM calculates benefit-to-cost ratios only for projects selected through a competitive process as economic efficiency projects within the Regional Transmission Expansion Plan (“RTEP”). PJM does not presently calculate benefit-to-cost ratios for reliability projects or local projects (i.e., those located entirely within a single utility's retail distribution service territory that are not selected as regional projects in RTEP and/or regionally cost allocated). As PJM has previously indicated in this docket,⁵ if the Commission so requests, PJM is also capable of⁶ performing additional calculations of benefit-to-cost analyses for use in ratemaking purposes so long as the Commission details a specific analysis so as to avoid case-by-case litigation of methodology.

Moreover, PJM should not calculate benefit-to-cost ratios for projects PJM does not evaluate and select for regional planning purposes because such actions would essentially position PJM as a regulator evaluating the potential merits of projects that are not otherwise within PJM's scope of authority as defined by the Commission and PJM's governing documents. This would be a significant expansion of PJM's responsibilities and one PJM does not presently seek.

It is also essential that PJM not be asked to step in as a rate regulator or “validator” of shared savings incentive requests. PJM may be able to provide FERC and incentive applicants with benefit-to-cost calculations performed for projects within the confines noted above, but PJM is not the appropriate party to validate for FERC a project's cost estimates and savings claims or endorse what ratio an applicant should be allowed to be awarded as its shared savings incentive. These two functions belong to the rate regulator

⁴ Shared Savings Proposal at 3.

⁵ See *Electric Transmission Incentives Policy Under Section 219 of the Federal Power Act*, Comments of PJM Interconnection, L.L.C., Docket No. RM20-10-000, at 16 (July 1, 2020).

⁶ Within these confines, PJM is technically capable of accommodating the additional work needed to perform such benefit-to-cost analyses though additional resources may be needed based on the volume of affected projects.

in the first instance, which PJM is not. The more appropriate role for PJM here is that of information provider, not incentive adjudicator. It is also important to remember that PJM completes its benefit-to-cost ratio calculations with economic efficiency planning purposes in mind – not rate setting purposes. As a result, FERC may find that there are challenges or considerations it needs to address before it can meaningfully use PJM’s planning-based benefit-to-cost calculations to evaluate requests for shared savings incentives or for other ratemaking purposes.

PJM also questions whether the shared savings incentive could be implemented without changes to the existing planning process. By way of example, although the Shared Savings Proposal claims “[n]o changes would be required to existing planning processes,”⁷ it nevertheless suggests a new planning process for evaluating grid enhancing technology deployments.⁸ If RTEP projects would be eligible to receive an incentive adder that is a function of planning estimated market savings, in addition to the usual cost of service recovery mechanism, PJM would presumably have to include that incentive cost in its project cost in the project evaluation in order to ensure a true “apples to apples” comparison of cost with more traditional projects. It is not clear if the proposal would have the RTO ignore these additional costs for purposes of cost comparisons in the planning process.

Moreover, the Shared Savings Proposal to evaluate GETs first and separately from traditional economic projects raises the additional question of whether competing projects would be evaluated on a level playing field, or if grid enhancing technologies would be elevated in priority and preference based on a reordered planning process. Today all projects are evaluated at the same time and compared to one another to determine which is the more efficient or cost-effective proposal to address the identified need. The Shared Savings Proposal seems to segment what today is an integrated review process.

Further, the mechanics of revenue recovery of grid enhancing technology project incentive costs would also need to be addressed. In the current process, costs are recovered through transmission rates that are a function of the project’s actual costs and not a function of a forecasted economic planning analysis.

PJM looks forward to continued engagement with FERC and the industry regarding transmission technology incentives and the role of RTOs in the transmission incentives context.

⁷ See Shared Savings Proposal at 3.

⁸ See Shared Savings Proposal at 3 (suggesting changes to the planning process because grid enhancing technologies “would be evaluated in a similar process to existing economic projects” that would “commence after the reliability and supplemental planning projects and before traditional economic projects”); *id.* (proposing that the RTO “decide on GETs shared-savings projects before traditional economic projects” which would be a change to the planning process).