Competitive Transmission Development Rates Technical Conference

Docket No. AD16-18-000

Panel 3: Transmission Incentives and Competitive Transmission Development Processes

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About the Speaker

Mr. Sundararajan is the Vice President of Transmission Finance, Strategy, and Siting for American Electric Power Company, Inc. ("AEP"). AEP is the nation's largest transmission owner, with more than 40,000 line-miles in ERCOT, PJM, and SPP. AEP is an 86.5% owner of Transource Energy, LLC ("Transource"), which was formed to compete for and develop transmission projects identified in post-Order No. 1000 regional planning processes. Transource is currently developing projects in SPP and PJM, and actively participating in ongoing competitive processes in both of those planning regions, as well as MISO.

Key Points

The Commission's ROE incentive policies under Order No. 679 and the 2012 policy statement were developed prior to implementation of non-incumbent developer reforms under Order No. 1000. These incentive policies are therefore not well-suited in certain respects to the competitive developer selection model.

A significant problem confronted by competitive developers is one of timing: because the solicitation windows for competitive projects is relatively short, there is often no time for a developer to apply for and obtain a Commission order authorizing project-specific incentive rate treatments for a project prior to the time the developer must submit a bid on the project. This puts the developer in the difficult position of deciding how much risk to assume in a project bid – including whether or not to offer binding capital cost containment commitments – without any assurances about the type or level of risk-mitigating incentives that will be available to the developer if it is awarded the project.

The Commission has helpfully recognized the need to create a level playing field between incumbent and non-incumbent developers by awarding the hypothetical capital structure incentive and regulatory asset incentive to non-incumbent developers on a generic basis prior to the award of a specific project. There are sound policy reasons for extending the pre-authorization of incentives to construction work in progress ("CWIP") and abandonment. Each of these incentives has been proven to reduce financing costs for utilities without causing financial harm to customers. On a net present value basis, including CWIP in rate base during construction rather than capitalizing AFUDC results in cost savings for customers. Pre-authorizing competitive developers to utilize these specific incentive rate treatments could lead to a more robust competition, with developers choosing whether or not to utilize the pre-authorized incentives for any given project. In the alternative, the Commission could establish specific parameters such as project size, estimated cost, or other considerations to allow for more targeted preauthorization of these incentives.

While the abandonment and CWIP incentives are useful, they do not address the risk associated with binding cost containment commitments, i.e., the risk that a developer is precluded from recovering prudently incurred costs which exceed the cap due to unforeseen circumstances at the time the bid was submitted. AEP and Transource understand and fully support the fact that these are voluntary business decisions that the developer has chosen to incorporate as part of their bid in order to maximize their ability to be designated to build the project. The Commission's ability to provide upfront certainty regarding the availability of incentives at the time developers are submitting competitive bids, including any ROE risk adders, can go a long way toward allowing developers to make informed decisions about the level of risk to assume at the time the bid is submitted.