

proposal, and several provide recommendations on how the two rules could be made compatible. In addition, many commenters object to specific features of the proposed crediting policy. For example, several transmission owners cite problems (e.g., regulatory lag, retail rate freezes) related to their ability to recover in transmission rates the costs of interconnections, including the credits that they pay to an Interconnection Customer. Many commenters object to the five year "sunset" date for refunding all amounts paid by the Interconnection Customer. They are concerned that transmission customers could be left with the financial burden and no offsetting benefits if the Interconnection Customer's Generating Facility ceases to operate. Some commenters argue that the Interconnection Customer's receipt of credits should not be limited to those occasions when the Interconnection Customer takes transmission service with respect to the output of the Generating Facility. Others argue that the payment of interest on unpaid credits is not appropriate or that the rate prescribed is either too high or too low.

682. The following is a summary of the comments received, organized according to the issues addressed. After each issue summary, the Commission presents its conclusions for that issue.<sup>110</sup>

#### Concerns About the Fairness and Efficiency of the Commission's Crediting Policy

683. Transmission Owners, such as Entergy, and others argue that the Commission's current crediting policy requires all transmission customers to subsidize the cost of facilities that would be unnecessary "but for" a particular Interconnection Customer's Generating Facility and that provide no benefits to the other transmission customers on the Transmission System. They also argue that this policy encourages inefficient siting decisions because the Interconnection Customer has no incentive to consider the full impact of its decision regarding where to locate its Generating Facility on the Transmission System. They claim that, when selecting a site, an Interconnection Customer will pay more attention to fuel supply and water availability than to its impact on the Transmission System.

684. The Alabama PSC argues that a pricing policy that spreads the costs of

all interconnection-related facilities situated "at and beyond" the Point of Interconnection to all transmission customers results in a subsidy to the Interconnection Customer, causes inefficiencies in siting, and is inconsistent with longstanding cost causation principles. The Coalition for Pricing claims that the policy of assigning cost responsibility simply based on the physical location of the facilities (i.e., relative to the Point of Interconnection) is contrary to the Commission's "system-wide benefit test" and violates the Energy Policy Act of 1992. It argues that certain facilities installed at and beyond the Point of Interconnection may not provide a system-wide benefit and, as such, should be directly assigned to the Interconnection Customer. Entergy argues that grave consequences can be avoided through the interim use of the system-wide benefit test, and the assignment of costs to those who benefit, prior to the establishment of participant funded expansion regimes in RTOs.

685. PSEG notes that in PJM the cost of any Network Upgrades that would not be required "but for" the interconnection of a Generating Facility to the Transmission System is assigned to the Interconnection Customer, and the Interconnection Customer receives financial transmission rights associated with the Network Upgrades that it pays for. PJM and others argue that an established RTO or ISO should be allowed to continue to use this policy, as the NOPR proposes. PJM states that its experience under its interconnection rules confirms that such pricing promotes economic efficiency including efficient use of the Transmission System. However, KeySpan cautions that the "but for" test can become meaningless if a fictitious transmission planning study can be used to identify the Transmission System needs required to meet load growth. It states that the independence of the Transmission Provider completing the study is the key to this process.

686. The Maine PUC contends that the Commission's reasoning for refusing to socialize system expansion costs in the natural gas pipeline context applies with equal force in the generator interconnection context. It states that, just as subsidization of gas pipeline expansion costs could lead to non-optimal or unnecessary capacity expansion, so too will subsidization of Network Upgrades associated with new generation projects. The Maine PUC also states that, just as rolled-in pricing gives an existing gas pipeline an unfair economic advantage over potential new

entrants, subsidization of Network Upgrades for Generating Facility interconnections could interfere with price signals for alternatives to traditional congestion solutions, such as load response from customers or merchant transmission.

687. Many other commenters, including state commissions, are especially concerned about an Interconnection Customer that intends to sell its output off-system or out of state. These commenters claim that the current policy requires transmission customers of the local Transmission Provider to subsidize the cost of Network Upgrades that would, in the latter case, provide them with no benefits. NRECA-APPA recommends that, without a commitment by the Interconnection Customer to serve power customers within the Transmission Provider's footprint, the Commission should require the Interconnection Customer to pay for the Network Upgrades. Some commenters, such as the Midwest ISO, further claim that the law in some states may not allow Network Upgrade costs to be rolled into the base rates of the local customers that are not the beneficiaries of the upgrades.

688. Other commenters, including EPSA, voice strong support for the crediting approach. EPSA states that the crediting mechanism works well at this time and should not be adjusted until the Commission has put in place a specific market design that would require such an adjustment. American Transmission and SoCal Edison also support the crediting approach. Indeed, American Transmission supports the crediting approach even if the Transmission Provider is an independent entity. American Transmission states that it discounts the argument advanced by critics of this policy that the Interconnection Customer must receive stronger price signals through direct assignment of the costs of Network Upgrades to bring about efficient location of new generation. It believes that requiring participant funding for Network Upgrades is akin to moving backward to the vertically integrated industry structure that existed prior to open access.

689. Cleco supports participant funding that would eliminate the need for the costs of Network Upgrades being refunded through transmission crediting. In the absence of such an approach, Cleco recommends that an Interconnection Customer should be credited for only half of the transmission service it has subscribed to for the first five years. Under Cleco's

<sup>110</sup> Issues regarding the pricing of Network Resource Interconnection Service are addressed in part II.C.2 (Interconnection Products and Scope of Service).