

of requiring the Transmission Provider to provide an Interconnection Customer that funds Network Upgrades with credits against future transmission service. As a transition plan, Exelon and Sithe recommend that an Interconnection Customer that is receiving credits when Standard Market Design is implemented be awarded financial transmission rights in an amount based on the Interconnection Customer's remaining credits as a proportion of its total credits. Some commenters, such as Cleco Power and Monongahela Power, emphasize that a Transmission Provider should not be required to provide both transmission credits and congestion rights to the same Interconnection Customer. Mirant believes that the two practices can coexist and that the Interconnection Customer should have the option to elect either transmission credits or the equivalent firm transmission rights as comparable compensation for Network Upgrades.

706. Other commenters believe that attempting to resolve pricing issues in this rulemaking presents significant problems. New York Transmission Owners declares that the "Commission's [Standard Market Design and LMP] policies and this NOPR are regulatory ships traveling in the night on a collision course, each completely unaware of the other's existence." They propose that the Commission limit the interconnection rulemaking to non-price issues. EPSA proposes that the Commission need not resolve in this proceeding what, if any, changes in the crediting mechanism might be necessary to implement Standard Market Design and the formation of RTOs. Calpine submits that the transmission credit policy should not be abandoned in the transition to Standard Market Design. It states that relying on recovery of the costs of Network Upgrades solely through assignment of FTRs under Standard Market Design would ignore the network access aspect of Standard Market Design and would not provide a practical means of recovering all costs of Network Upgrades. Although a change in policy may be appropriate after the Standard Market Design is in place, Calpine recommends that such a change not be made in this proceeding.

#### Commission Conclusion

707. The timing and content of any Final Rule in the Standard Market Design proceeding will not be determined in this proceeding. In the meantime, it is important to include interconnection pricing rules in this Final Rule, based on the record of this proceeding.

#### The Inability of a Transmission Owner To Recover the Costs of Network Upgrades

708. A number of Transmission Owners express concern that they may not be able to recover in a timely fashion the costs that they will incur under the proposed pricing policy. Monongahela Power states that a Transmission Owner faces three problems in this regard. First, it notes that a Transmission Owner faces the expense, delay, and uncertainty of a full transmission rate case before the Commission to roll in the costs of system upgrades associated with new generation projects. Second, it claims that even if the Commission grants full cost recovery, costs may be "trapped" by an inability to pass them through to the majority of customers due to a state retail rate freeze. Third, a Transmission Owner may face lost revenues associated with a new generating project once transmission service begins because of the requirement to provide a financial credit to the Interconnection Customer. Monongahela Power asks that the Commission permit a Transmission Owner to make a limited Section 205 filing for the immediate roll in of these costs, and that it work with the States to accommodate the flow-through of these costs to retail customers. At a minimum, both Monongahela Power and Dominion Resources ask that the Commission provide for deferred accounting treatment with assurances of future cost recovery when the Transmission Owner must record a transmission revenue credit with no income to offset it.

#### Commission Conclusion

709. The Commission concludes that it is not necessary to provide for the Transmission Provider to make a limited Section 205 filing as proposed by Monongahela Power for the immediate roll in of the costs it will incur under the crediting policy. In the ordinary course of business, a public utility frequently incurs costs for which it has no immediate revenue offset, just as it routinely experiences revenue increases that are not accompanied by commensurate increases in costs. When a public utility believes that its revenues are not adequate, it is permitted by Section 205 of the FPA to make a rate filing. The commenters have provided no evidence to convince the Commission that the burden created by its crediting policy is so great that the Commission should change its regulations to permit a limited Section 205 transmission rate filing that addresses only credit-related cost

increases, or deferred accounting treatment for transmission credits, as sought by Monongahela Power and Dominion Resources.

#### Responsibility for Line Outage Costs Resulting From Interconnection

710. The NOPR did not address the allocation of costs that may be incurred when a transmission line must be taken off-line in order to complete an interconnection. In an order issued November 20, 2001,<sup>114</sup> however, the Commission stated that it would consider in this rulemaking the question of who should bear these costs.

711. Commenters express a variety of views on this issue. The Coalition for Pricing states that these costs should be a component of the costs paid by generators for interconnection service under the Final Rule IA. It asserts that any other policy would result in all transmission customers unfairly subsidizing Generating Facility interconnections. The Coalition for Pricing proposes that the Parties to individual interconnection agreements be allowed to agree on the specific line outage costs for which the Interconnection Customer should be responsible. The Coalition for Pricing argues that, since the Parties' agreement would necessarily be filed with the Commission, it would retain its regulatory control over line outage cost allocations. However, Reliant states that the Commission has had a policy of not requiring that the Interconnection Customer pay for outage-related costs, and argues that the Coalition for Pricing has provided no justification for departing from this policy. Reliant recommends rejecting the modifications that the Coalition for Pricing proposes.

712. AEP recommends that the Interconnection Customer be required to reimburse all affected generation owners for outage-related costs that they incur, whether or not such generation owners are affiliated with the Transmission Provider. AEP believes that this can be done in a manner that properly identifies the costs, minimizes the Transmission Provider's discretion, and allows for adequate regulatory scrutiny. It recommends a method of compensation that it claims avoids the exercise of discretion. That is, the Interconnection Customer should replace the energy that would otherwise have been generated by the affected Generating Facility. AEP states that if the Interconnection Customer is unwilling to replace the lost energy, it would be up to the affected generation

<sup>114</sup> American Electric Power Service Corporation, 97 FERC ¶ 61,200 (2001) (AEP).