Americans for a Clean Energy Grid

FAQ: Cost Allocation and the Grid

First things first: Who pays for electric transmission lines?

Customers — households and businesses — pay for electric transmission throughout most of the country. While the government owns some transmission lines, such as the Bonneville Power Administration or Tennessee Valley Authority, most of the nation's grid system is privately owned by utilities and developers.

Is it the same for all transmission lines? Are there any differences based on the lines' size?

"Beneficiaries pay" — this is what courts have said is required by the Federal Power Act. If a line is located completely within a utility's borders, then allocating costs is straightforward — that utility's customers pay for the line. But for more complicated "regional" transmission lines, like where a line crosses between utility footprints, the regional planning organization sets a general formula to allocate transmission costs to customers who benefit.

How do regulators decide which customers benefit from a transmission line?

Identifying beneficiaries is not always easy or straightforward, and can change over time. Since precise measurements are difficult, costs are allocated to customers in a way that is "roughly commensurate" with the benefits they receive. Importantly, cost allocation for regional transmission projects is effectively part of the planning process, where utilities, developers, and other stakeholders collaborate to determine transmission needs, solutions, and beneficiaries. FERC reviews transmission cost allocation proposals to ensure that, based on evidence in the record, they are just, reasonable, and allocate costs roughly commensurate with benefits.

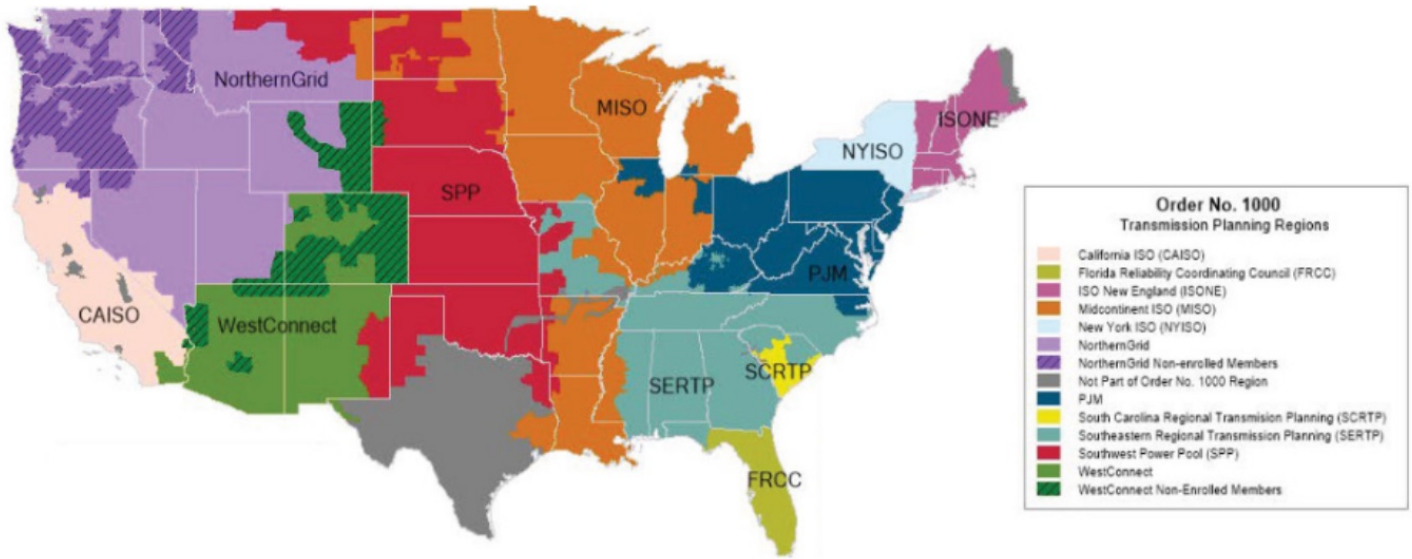
WHAT ARE THE BENEFITS OF TRANSMISSION?

The basic list of benefits, established more than 10 years ago, evaluates whether a line increases reliability, adds economic value, or meets public policy requirements. FERC has proposed updating its rules to better reflect the full value of transmission, including:

- Cost-effective replacement of aging lines
- Reduced power outages and enhanced ability to respond to extreme weather
- Greater energy capacity due to upgraded lines
- Increased competition among generators
- Improved access to lower-cost power

These benefits are the backbone of reliable and cost-effective electricity service.

Federally-Approved Transmission Planning Regions



Are longer transmission lines getting built today?

Few long-distance high-capacity lines are getting built today. Some lines have been built within a large utility's footprint, or to directly connect low-cost generation to areas of high electric demand. But we also need large regional and interregional transmission lines to keep the lights on during extreme weather events and provide access to a wide range of generation resources. Local, regional, and interregional transmission lines must work together to form the foundation of this multi-purpose and multi-directional grid that serves all customers reliably and cost-effectively. This public service relies on cost allocation among a broad base of benefitting customers.

So why is cost allocation in the news now?

Cost allocation is an old concept; utilities have always charged customers for the transmission lines needed to provide them service. More recently, growing evidence about the benefits of connectivity between regions has highlighted the need to build and strengthen transmission service between states, utilities, and regions. To make this happen, infrastructure costs need to be shared among customers in a manner that is "roughly commensurate with benefits," as the law requires. It is this issue — how to share costs when customers from multiple utilities or regions benefit — that is under consideration.

COST ALLOCATION: MYTHS VS. FACTS

Myth: Cost allocation is a new concept.
Fact: Local cost allocation methods have long been used to support the build out of transmission lines within utility footprints — what is new is our increased focus on longer, high-capacity transmission lines across a region or multiple regions. These larger high-capacity transmission lines will improve reliability and cost-effectively share energy resources across a broader area, and cost allocation — among all customers who benefit — is needed to fairly support the lines.

Myth: Because the transmission line crosses my land/ county/ state, I am being allocated costs even though all the benefits go somewhere else.
Fact: The cost allocation of a transmission line does not mirror its location; it is considered separately. Broad formulas are approved by regulatory agencies so that customers within a region pay for transmission that benefits that region through access to lower cost energy and reliability benefits. To minimize the burden of a transmission line, landowners are directly compensated, and programs may be available to provide assistance to local communities as well.

Myth: Cost allocation for transmission lines only helps those who prefer renewable resources, and would make everyone else pay even if they don't share that preference.
Fact: Transmission lines are fuel neutral and do not prefer one kind of generation over another; they will carry power from whatever generation is connected to the line. Access to "renewable energy" or achieving climate goals is not a benefit included in current FERC or Congressional proposals. As noted above, transmission lines provide reliability and economic benefits first and foremost – reduced power outages, resilience in the face of extreme weather, and more.