

**FEDERAL ENERGY REGULATORY COMMISSION**  
WASHINGTON, DC 20426

OFFICE OF THE CHAIRMAN

December 17, 2009

The Honorable Janice K. Brewer  
Governor of Arizona  
1700 West Washington  
Phoenix, AZ 85007

Dear Governor Brewer:

I am writing today to address your letter of November 30, 2009 to members of the U.S. Senate on the issue of transmission cost allocation. In your letter, you express the view that region-wide transmission cost allocation proposals could hinder states' efforts to develop renewable resources and would effectively subsidize remote resources over other alternatives, which include distributed resources, energy efficiency and demand side measures. Your view is that utilities, state regulators and regional transmission organizations should determine how to meet environmental goals based on economic choices among competing options. I agree that utilities, state regulators and regional planners should have primary responsibility for designing the grid in their regions and for determining which investments meet the region's needs. I also agree that those decisions should be made based on meeting a region's needs in the most cost-effective way. I disagree, however, that increased clarity regarding federal authority over cost allocation is inconsistent with these goals.

The Commission's responsibility under the Federal Power Act is to ensure that jurisdictional transmission rates are just, reasonable, and not unduly discriminatory or preferential. This includes setting rates by which transmission developers recover the costs of new transmission facilities. As the Commission recognized in Order No. 890, several factors are relevant in considering disputes over cost allocation: (1) whether a cost allocation proposal fairly assigns costs among participants, including those who cause the costs to be incurred and those who otherwise benefit from them; (2) whether a cost allocation proposal provides adequate incentives to construct new transmission; and (3) whether state authorities and other participants generally support a cost allocation proposal.

The Commission's historic practice is to encourage entities to work together within their region to develop cost allocation mechanisms that garner wide support. Cost allocation is often a threshold consideration in the development of transmission facilities for delivering renewable energy. Cost allocation decisions must be consistent with meeting a region's needs in the most cost-effective way while also ensuring that the region's and the states' renewable energy goals are met.

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It is also true, however, that sometimes the Commission must acknowledge in its cost allocation decisions the challenges inherent in the development of transmission facilities to connect variable renewable energy resources to the grid. Variable renewable energy resources are often found in large quantities at dispersed locations remote from load centers. For this reason, there are often significant costs associated with building the transmission facilities needed to deliver power from such resources. Compelling a resource developer or host utility to bear all of the cost of these transmission facilities, regardless of benefits to others, will make it less likely that these resources will be developed. The Commission takes all of these factors into consideration when promoting nondiscriminatory access to energy markets by allowing flexibility in rate design. For example, in April 2007, the Commission approved an innovative cost allocation mechanism to facilitate the financing and development of interconnection facilities designed primarily to connect multiple location-constrained resources, in this case wind, to the California electric grid. FERC approved a California Independent System Operator (CAISO) proposal that initially rolls in the costs of these interconnection facilities to all users of the system through the CAISO Transmission Access Charge. Each interconnecting generator is then responsible for paying its pro rata share of the going-forward costs of the line. All users of the transmission grid pay the costs of any unsubscribed portion of the line, through their inclusion in the Transmission Access Charge, until the line is fully subscribed. Once the facility is built, generators of any fuel type would be eligible to interconnect and contract for unsubscribed capacity, consistent with the Commission's open access requirements. This approach will support compliance with California's renewable portfolio standard and the state's efforts to require reductions in greenhouse gas emissions by helping to link location-constrained generation to load while providing for sharing of risks between parties who ultimately benefit from the timely installation of the transmission facilities. This approach highlights the importance of flexibility in approving cost allocation proposals that suit the unique needs of the region. A strict "user pays" approach, such as you suggest in your letter, would have precluded this approach.

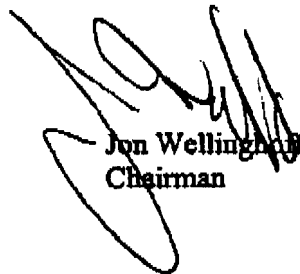
In my view, the American Clean Energy Leadership Act of 2009 includes an important clarification to the Commission's authority in the area of cost allocation. It is critically important that FERC continue to have the flexibility to approve cost allocation methodologies that meet local and regional needs in a manner that provides just and reasonable rates for consumers as well as non-discriminatory access to the transmission system. It is also appropriate that Congress clarify that the Commission has authority to allocate transmission costs to all load-serving entities within an interconnection or part of an interconnection where it is appropriate to do so. Of course, the Commission would need to ensure, as it does today, that the costs are allocated fairly to the appropriate entities and that regions work together to develop cost allocation mechanisms that garner broad support. As I have testified before Congress, legislation should avoid including unduly restrictive language on cost allocation, particularly language that would impose a requirement to calculate the precise monetary benefits expected to accrue from a new transmission facility or, as your letter suggests, impose a particular cost allocation

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**approach. Rather, Congress should maintain the Commission's flexibility to address cost allocation for each facility under the facts and circumstances presented.**

**I would welcome the opportunity to discuss these very important issues with you further.**

**Sincerely,**

A handwritten signature in black ink, appearing to read "Jon Wellingshoff", is written over the typed name and title.

**Jon Wellingshoff  
Chairman**