SUBMITTED STATEMENT OF

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BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

COMMISSIONER-LED TECHNICAL CONFERENCE REGARDING LARGE LOADS CO-LOCATED AT GENERATING FACILITIES

NOVEMBER 1, 2024

FERC Technical Conference Regarding Large Loads Co-located at Generating Facilities

Chairman Phillips and Commissioners Christie, Rosner, See, and Chang,

Thank you for holding this Commissioner-led technical conference, and for inviting me to participate in it. My name is Kent Chandler, and I am a Resident Senior Fellow at the R Street Institute, a nonprofit, nonpartisan think tank in Washington, D.C. Immediately before joining R Street, I was a Commissioner and Chairman of the Kentucky Public Service Commission, President of the Organization of PJM State, Inc. (OPSI), President of the Mid-Atlantic Conference of Regulatory Utilities Commissioners, and a member of the National Association of Regulatory Utility Commissioners' Board of Directors and Executive Committee. In my short time at R Street, I have dedicated my time to the issues of transmission and the significant interest in the co-location of load and generation, primarily in the PJM footprint.

Today's interests in co-locating large loads with generation are primarily driven by yesterday's failures.[1] Nationwide backlogs of generation queues, partly addressed by Order 2023, and hopefully addressed further by subsequent FERC action, are hindering suppliers' ability to enter wholesale markets.[2] Furthermore, the absence of holistic long-term planning heretofore, and the shortcomings of medium-term planning, like the exclusion of state policies and any reasonable consideration of generation retirements, failed to build out a system in anticipation of today's circumstances.[3] Additionally, utilities across the country are financially incentivized to maximize network investments, rather than address issues with cost-effective alternatives, driving network costs for all customers higher than the most-reasonable alternatives. The broad absence of cost discipline, either through strong economic regulation at FERC or through competition, exacerbates the growing imposition of transmission expenses. There are of course drivers outside of the Commission's jurisdiction, like the shortcomings of state and local permitting and recent changes in the cost of capital.

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[1] Devin Hartman and Olivia Manzagol, "AI's Energy Footprint Warrants Markets, Not Panic," *R Street Real Solutions*, Sept. 26, 2024. https://www.rstreet.org/commentary/ais-energy-footprint-warrants-markets-not-panic/

[2] Grid Connection Backlog Grows By 30% In 2023, Dominated By Requests For Solar, Wind, And Energy Storage, Energy Technologies Area Berkely Lab, Lawrence Berkely National Laboratory, April 10, 2024. https://emp.lbl.gov/news/grid-connection-backlog-grows-30-2023-dominated-requests-solar-wind-and-energy-storage; Federal Energy Regulatory Commission, *Improvements to Generator Interconnection Procedures and Agreements*, Final Rule, Docket No. RM22-14-001. https://www.ferc.gov/media/e-1-order-2023-rm22-14-000; Devin Hartman and Beth Garza, "Finishing Generator Interconnection Reform" *R Street Real Solutions*, Dec. 5, 2023. https://www.rstreet.org/commentary/finishing-generator-interconnection-reform/; Ethan Howland, "PJM aims to fast-track reliability projects in interconnection queue," *Utility* Dive, Oct. 9, 2024. https://www.utilitydive.com/news/pjm-fast-track-reliability-projects-interconnection-queue-invenergy/729311/.

[3] Devin Hartman and Kent Chandler, "Eliminating the discord over FERC Order 1920 – what's the role for states?" *Utility Dive*, July 2, 2024. https://www.utilitydive.com/news/eliminating-the-discord-over-ferc-order-1920-whats-the-role-for-states/720279/; Devin Hartman and Kent Chandler, "Stakeholder Soapbox: A Transmission Planning Resolution Emerges," RTO Insider, Dec. 14, 2022. https://www.rtoinsider.com/31281-stakeholder-soapbox-tx-planning-resolution-emerges/; Zach Zimmerman, Dinos Gonatas, Anjali Patel, and Rob Gramlich, "Transmission Planning for PJM's Future Load and Generation, Version 1," Americans for a Clean Energy Grid (ACEG), May, 2024. https://cleanenergygrid.org/wp-content/uploads/2024/05/GS_Transmission-Planning-for-PJMs-Future.pdf.

An alternative to loads waiting years to get connected, and paying through the nose when they do, is co-location.[4]

Large load's interest in coming to market against the headwind of these challenges is a symptom of the problems that have been permitted to fester in wholesale markets. FERC, to its credit, has addressed, or is addressing, many of these underlying problems, but relief is still a long way off. Importantly, co-location is occurring in organized wholesale markets not because the problems above do not exist in other areas of the country, but because customers in those areas do not have any choice but to accept their fate. In light of the foregoing, the Commission should look at co-location from an angle that is different than the one implied by the questions on its agenda. Co-location is not a problem to solve but is rather an opportunity itself to alleviate the pressures of past failures faster than the Commission's current plans anticipate. Building generation faster, reducing congestion, avoiding future network investments, and driving utilities to plan using more technology alternatives to scrimp out greater efficiencies in the current system instead of timely and costly rebuilds of the network, are all positive impacts of co-location configurations.

In attempting to better understand co-location, and helping large loads timely connect to the grid, FERC should take a wider lens of the issues and opportunities than currently exists in the matters pending before it. Configurations at the retail and wholesale levels that look like co-location have existed for decades. Further, currently discussed co-location configurations are not the entire universe of options. The Commission's first rule in this endeavor should be ensuring not to upset current configurations of load and generation being co-located, whether in front of or behind the meter, and making sure rules do not stymie innovation in the form of future, unknown configurations. Instead, the Commission should focus on better understanding co-location configurations, including their economic and engineering impact. Only then can a fulsome conversation take place on the ratemaking and resource adequacy implications of the subject.

Finally, as noted above, there is nothing truly novel about current configurations. The practical and economic impacts of those proposals are similar to or the same as ones that have existed across the grid for decades. As such, long-held ratemaking principles must apply. Consumers should pay for the portion of the network they use. If inefficient bypass exists, that is a cost allocation and rate design issue, not a reason to force customers to use a network in a defined manner, and certainly not a reason to protect monopolists to the detriment of the public interest. We must all ensure tariffs appropriately assign and allocate costs in a way that is reflective of cost-causation, while also providing consumers an incentive to avoid driving future network upgrades. Doing so is consistent with least-cost utility planning, and must be mandated by the regulator as it is inconsistent with utilities' cost of service rate base incentive.

[4] Devin Hartman and Kent Chandler, "The Fuss and Advantages of Siting Large Consumers at Power Plants," *R Street Analysis*, Sept. 16, 2024. https://www.rstreet.org/commentary/the-fuss-and-advantages-of-siting-large-consumers-at-power-plants/.