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Plugged Into The Energy Industry

WHITEPAPER

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Investigating ISO/RTO Independence in U.S. Transmission Planning

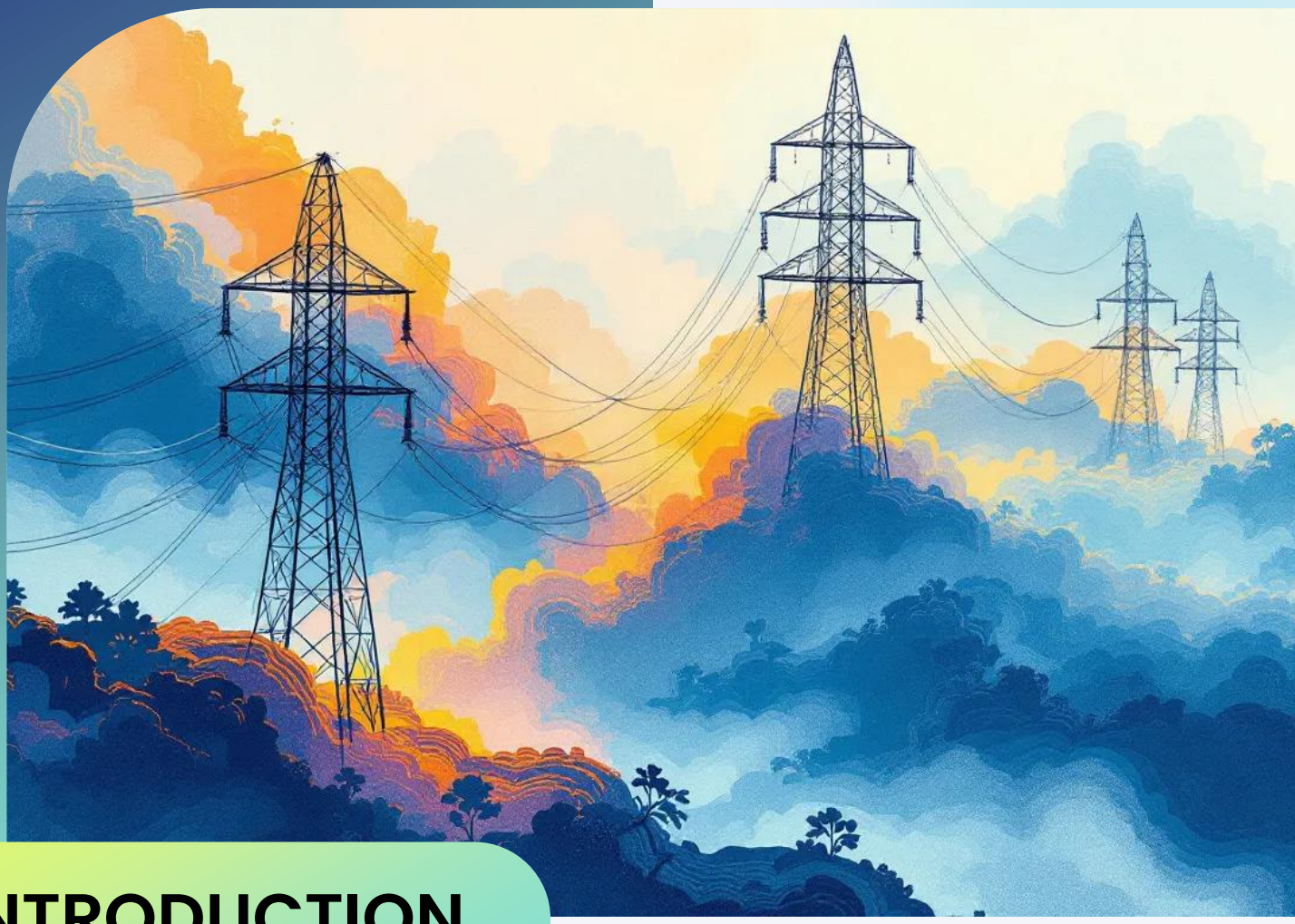
VedeniEnergy
Plugged Into The Energy Industry

+1 463-266-4496

WWW.VEDENI.ENERGY

INFO@VEDENI.ENERGY

WHITESTOWN, IN 46075, US.



INTRODUCTION

Grid Governance or Utility Influence? The Battle Over Fair Transmission Planning

Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs) were created to independently operate regional electric grids and plan transmission in the public interest, free from the control of any single market participant. In theory, this independence ensures a fair, consumer-focused grid operation and planning process. In practice, however, questions have emerged about the actual independence of ISOs/RTOs and the influence of incumbent utilities and transmission owners within their governance.

Recent disputes – such as a complaint over the Midcontinent ISO (MISO) excluding the merchant Grain Belt Express line from its planning – highlight tensions between profit-driven utility interests and consumer cost minimization. This white paper investigates ISO/RTO governance structures, the influence of incumbent stakeholders, the financial beneficiaries of transmission expansion, and the balance between shareholder value and consumer rates in transmission planning. Perspectives from market monitors, consumer advocates, and state regulators are incorporated to provide a broader analysis.

ISO/RTO Governance and Stakeholder Influence

ISOs and RTOs are structured as independent, non-profit organizations with governance frameworks intended to balance diverse stakeholder interests. An independent board typically governs each RTO, and FERC's Order 2000 emphasizes that RTOs must be independent of market participants. In practice, though, much of the RTO decision-making is heavily informed by stakeholder committees composed of utilities, transmission owners (TOs), generators, marketers, and consumer representatives. Incumbent utilities and TOs are often among these processes' most influential stakeholder groups.

Industry analyses note that RTOs evolved from utility power pools and that "the commercial interests and individual entities that held formal power and informal influence in regional decision-making… are largely the same today as they were twenty-five years ago," leading regional rules to "cater to incumbents' interests, to the detriment of competition, consumers, and innovation". For example, in the Southwest Power Pool (SPP), voting membership is dominated by incumbent transmission owners, and in MISO, a handful of sectors (incumbent generators, TOs, etc.) hold nearly half of stakeholder voting power. This dominance raises concerns that RTOs might operate more like "country clubs for the benefit of their private members" than neutral arbiters.

Incumbent utilities' strong presence in RTO committees and task forces means they can shape proposals before they ever reach the board. Transmission owners often have significant input into transmission plans, market rules, and cost allocation policies, given their technical expertise and resources to participate in every meeting. RTO stakeholder processes are designed to be transparent and inclusive, but they can be slow and susceptible to incumbent influence. A recent analysis found that because TOs hold voting power on planning committees, they can "steer investment toward projects that protect their market positions rather than projects that maximize regional efficiency or benefit consumers". In other words, while RTO boards are independent on paper, the information and recommendations reaching those boards may be filtered through stakeholder committees where incumbents wield outsized influence.

Transmission Planning and Incumbent Advantage

Regional transmission planning is one of the core functions of RTOs, intended to identify the most cost-effective projects to maintain reliability, relieve congestion, and integrate new generation. However, evidence suggests these planning outcomes can be biased by the interests of incumbent utilities. For instance, in MISO's latest long-range transmission plan, the RTO's independent market monitor alleged that the planning process was skewed to favor building more lines than necessary. MISO's Board approved approximately $10.3 billion (Tranche 1) and $22 billion (Tranche 2) in new regional projects in 2022–2024, touting benefit-to-cost ratios as high as 3.5 for the portfolio.

However, the market monitor, Potomac Economics, calculated that if all assumptions were truly impartial, the benefit-cost ratio for the second tranche would be below 0.4 – indicating costs far outweigh expected benefits. He attributed this discrepancy to MISO's failure to include a major merchant transmission project (Invenergy's 5 GW Grain Belt Express line) in its models, which made the RTO's own projects seem more beneficial than they would be if the merchant line's contributions were counted.

"MISO's transmission plans and business case analyses are highly biased in favor of over-building transmission," warned David Patton, the MISO market monitor. He noted a lack of independent oversight of how MISO crafts its planning scenarios, selects projects, and sets assumptions. In fact, MISO recently even tried to limit the market monitor's ability to scrutinize its planning, claiming it was beyond the monitor's scope.

This situation exemplifies how incumbent transmission owners can benefit from optimistic planning assumptions. If a merchant project like Grain Belt Express is ignored, MISO's incumbent TOs get to build alternative lines under the regional plan, expanding their rate base (and profits) while consumers bear the costs. Patton explicitly pointed to the

"enormous economic incentives for certain segments of MISO's participants to over-build transmission, at the expense of… customers". Those segments are essentially the incumbent transmission owners and utilities who profit from new construction. Consumer advocates and even some state officials share these concerns – a coalition including the Arkansas, Mississippi, and North Dakota utility commissions urged FERC to step in, fearing MISO's ratepayers could pay "tens of billions of dollars for MISO-preferred transmission facilities that may be unnecessary" if advanced-stage merchant projects already provide equivalent benefits. In short, when incumbents dominate planning, projects that bolster their own networks tend to get priority, whereas non-incumbent solutions (like independent merchant lines or non-wires alternatives) may be undervalued or excluded.

RTOs defend their processes as thorough and stakeholder-inclusive. MISO, for example, responded that it operates as a nonprofit in the public interest, "independent of any market participant", and that its transmission planning is a rigorous, transparent stakeholder process… a model for grid operators. Indeed, MISO and other RTOs have extensive stakeholder engagement in planning, and their boards must ultimately approve plans based on broad evidence. However, the above dynamics suggest that the level of incumbent utility input is so high that it can shape the very evidence presented. Even when RTO staff run the studies, the data inputs (load forecasts, project proposals, etc.) often come from the member utilities, and creative "worst-case" assumptions can justify larger builds. As the American Enterprise Institute's Center for Tech & Energy noted, RTOs often entrench incumbent utilities' control over expansion, resulting in "inefficient outcomes, delays, and higher costs". The planning process can thus reflect incumbent preferences unless robust independent oversight or corrective FERC action is applied.

- **Biased planning?** MISO accused of favoring utility projects over cheaper alternatives.
- **Incumbents win:** Utilities profit from inflated transmission builds; consumers pay.
- **Flawed math:** Market monitor found real benefits just 0.4x costs, not 3.5x claimed.
- **Rigged process?** Utility-driven assumptions may skew studies toward costly projects.
- **Weak oversight:** MISO tried silencing critics; states demand FERC intervention.

FINANCIALS

Financial Beneficiaries of Transmission Projects

When new transmission projects are approved in an RTO plan, who profits financially? Typically, it is the incumbent transmission owners or their affiliates that build the lines and earn a regulated return on those investments. Under the federal cost-of-service model, a utility that constructs a transmission project is entitled to recover all prudent costs from ratepayers, plus an allowed return on equity (ROE) that often ranges around 9–11%. This model virtually guarantees a profit on capital expenditures and creates a strong incentive to invest. As one analysis put it, "Transmission investments by IOUs are subject to cost-of-service regulation, which allows utilities to recover their costs while earning a regulated return… This creates perverse incentives for transmission owners to favor large capital-intensive projects that expand their rate base". In other words, the more they build, the more they earn, as long as the projects are approved.

Financially, incumbent utilities and transmission companies are the clear beneficiaries of RTO-planned projects. Once a project is in an approved regional plan, FERC allows the utility to add it to its transmission rate base and charge customers accordingly. The costs are allocated per RTO rules (often spread across zones or the whole region), meaning even customers in distant areas might pay a share. These projects represent steady, low-risk returns for the utility's shareholders – essentially new profit centers funded by ratepayers. By contrast, the "benefits" to consumers are supposed to be reliable service and reduced congestion or generation costs, which are real but often hard to quantify. Consumer advocates worry that utilities may gold-plate systems with more infrastructure than necessary since the risk of overbuilding falls not on the company but on consumers in the form of higher rates.

Multiple examples illustrate how incumbent TOs capitalize on these incentives. In PJM (the Mid-Atlantic RTO), over 1,500 "supplemental" transmission projects worth about $18 billion were planned by utilities locally (outside the regional plan) for the 2024-2028 time frame with minimal oversight. These projects – often small upgrades or replacements – face "only a superficial, if any, independent review," according to a coalition of large industrial energy consumers and state ratepayer advocates. The group's complaint to FERC argued that the current system "incentivizes transmission owners to overinvest in local projects while potentially underinvesting in more efficient regional solutions." Because local projects in many RTOs are exempt from competitive bidding and automatically recovered in rates via FERC formula tariffs, utilities can freely pursue them and earn profits with little scrutiny. Investor-owned utilities are thus effectively rewarded for self-planning projects, as noted in the complaint, which called for independent transmission planners to oversee needs above 100 kV.

From a financial perspective, incumbent utilities also benefit from policies that limit competition. Despite FERC Order 1000's intent to introduce competitive bidding for regional projects, many states have passed "right-of-first-refusal" (ROFR) laws, giving incumbent TOs the first option to build new lines in their service territory. Proponents claim ROFR laws ensure local experience and reliability, but critics note they "shield incumbents from competition" and create "artificial barriers to entry" for potentially lower-cost independent developers. The result is that incumbents maintain a near-monopoly on new builds, locking in their future revenue streams. An independent transmission developer, by contrast, must convince regulators or RTOs to approve its project without the benefit of captive ratepayer funding – a much higher hurdle. As Dr. Ari Peskoe observed, the industry's structure lets incumbent utilities "grab the tiller" of regional planning and resist projects (like interregional ties or third-party lines) that might lower prices or introduce competition, preserving their own profit advantages.

PLANNING

Influence of Incumbents on Planning and Policy

Incumbent utilities and TOs not only benefit financially from transmission projects, but they also exert influence on shaping the very plans and policies that determine which projects get built. This influence can be seen in subtle ways. For instance, incumbents often provide the data and forecasts used in RTO planning models – if those inputs are conservative (e.g., assuming high demand growth or limited local generation), the model will produce more transmission buildout. Incumbents can also propose specific projects for consideration. They may push for criteria that favor conventional wire solutions and downplay non-transmission alternatives in stakeholder planning meetings.

Over time, the planning methodologies themselves, including cost-benefit formulas, can reflect incumbent priorities. MISO's market monitor highlighted exactly this concern, noting "little independent oversight" of how MISO sets its scenario assumptions or evaluates project benefits. Without independent verification, an RTO could potentially use favorable assumptions (like very high future fuel costs or carbon prices) to inflate the projected benefits of new transmission, making nearly any large project look beneficial on paper. Incumbent TOs have an interest in such optimistic assumptions because they justify more construction.

Moreover, incumbents often have formal roles in governance that give them a say in policy. In some RTOs, major rule changes require stakeholder approval by a sector-weighted vote. Transmission owner sectors hold significant voting power, so they can block rules they dislike or support rules that serve their interests. For example, proposals to tighten project reviews or empower independent planners might face opposition from TOs in stakeholder votes. This dynamic was evident in the push for an Independent Transmission Monitor (ITM) – a concept akin to an independent market monitor but for overseeing transmission planning and spending.

In a FERC technical conference, state regulators and consumer advocates pressed for independent monitors to bring more accountability, with one state official stating, "We desperately need something like an independent transmission monitor." Incumbent utilities, however, often resist such oversight. Southern Company (a major utility in the Southeast) balked at the ITM idea, and the WIRES industry group argued that additional planning oversight would "burden FERC and all transmission developers" and delay needed projects. This reflects a broader pattern: incumbents prefer internal control over planning, contending that existing stakeholder processes suffice, while consumer advocates and some regulators call for stronger independent checks.

FERC policy has tried to balance these influences. Order 890 (2007) required each transmission provider (including RTOs) to have an open, transparent planning process – effectively giving stakeholders, including incumbents, a guaranteed seat at the table. Later, Order 1000 (2011) sought to pry planning and project development open to more competition and public policy considerations, removing the federal ROFR for regionally planned projects. Yet, as noted, the incumbent "transmission syndicate" reacted by securing state-level ROFRs or adapting RTO rules to maintain their advantage. The consequence is a planning regime where incumbents still largely call the shots on new investments, even as RTOs nominally run independent processes.

Some state regulators have grown increasingly frustrated with this status quo. The Mississippi PSC's chairman has described parts of the transmission planning process as having "two foxes in charge of the henhouse" – referring to RTOs deferring key decisions to their member transmission owners. Similarly, in New England, the Massachusetts Attorney General and other New England states have pressed ISO-NE to reform how it reviews asset replacement projects, suspecting utilities may be "taking advantage of this lax review process to the benefit of their shareholders".

Shareholder Value vs. Consumer Rates

A fundamental tension in utility regulation is between providing returns to shareholders and keeping rates affordable for consumers. Publicly traded utility companies have a fiduciary duty to maximize shareholder value, which incentivizes revenue and earnings growth. Building new transmission is one of the most straightforward ways for utilities to grow earnings under the regulated model (since the ROI is relatively assured). This can conflict with consumers' interest in low rates, especially if utilities pursue projects that are larger or earlier than necessary.

For example, Maine's Public Advocate found that New England utilities spent heavily on "asset condition" rebuild projects with virtually no external review and cautioned that some utilities "may be taking advantage of [the] lax review process to benefit their shareholders." The result was rising transmission rates – New England's transmission charges are the highest in the U.S., and utilities there proposed a further 9% rate hike for 2024, largely due to these capital investments. Each dollar of such spending provides a return to investors but adds to customers' bills.

Consumer advocates argue that the balance has tipped too far toward utility investment and away from cost discipline. Nationally, annual utility transmission spending ballooned from about $9 billion in 2000 to $40 billion by 2019 (adjusted dollars), a more than fourfold increase. While some of this was needed for reliability and grid modernization, critics point to ample evidence of "inefficient planning and projects that are not cost-effective, resulting in unjust and unreasonable rates." They note that traditional regulatory checks on capital spending have weakened: many RTO members use formula rates that automatically pass through expenses with limited cases for prudence review.

FERC Chair Mark Christie (a former state regulator) has warned that formula rates make it harder to tell if transmission spending is prudent. Essentially, if a utility builds a project, the

costs flow into rates unless someone aggressively challenges them – a challenge that is difficult without detailed data. In one stark case, Public Citizen uncovered that Public Service Electric & Gas (PSE&G) had misled PJM about a $546 million project's costs, leading to what FERC's enforcement staff called "harrowing fraud." PJM's board and staff, according to Public Citizen, failed to perform even "a modicum of independent oversight" before assigning those costs to ratepayers. Although PSE&G later settled with FERC enforcement (paying the penalty), the incident suggests that RTOs may not always catch utility misrepresentations – possibly trusting their incumbent members too readily, to consumers' detriment.

From the investor perspective, the push for ever more transmission is understandable. Wall Street analysts often reward utilities that expand their regulated asset base, and transmission investments have federal backstop rates that are usually more favorable than distribution or generation returns. For pure-play transmission companies (e.g., ITC Holdings or American Transmission Co.), growth in shareholder value is entirely predicated on building new lines. These companies, many of which are publicly traded or owned by investment funds, seek to maximize returns by investing heavily. Consumer advocates worry that this profit motive leads to "overbuilding" – building projects sooner or at a larger scale than absolutely needed – because the utility doesn't lose money by erring on the side of over-investment (the costs are passed on). Indeed, MISO's monitor pointed out that certain participant segments have an economic incentive to over-build at the expense of customers, summing up the core conflict between shareholder and ratepayer interests.

It's worth noting that not all stakeholders favor holding down investment. Renewable energy developers and some policymakers argue that more transmission is needed to reduce congestion and enable the clean energy transition, even if it raises near-term rates. They often align with transmission owners in supporting big buildouts (for different reasons – renewables developers want access to markets, while TOs want the investments). Meanwhile, large industrial consumers and public power entities tend to align with consumer advocates in demanding cost control and questioning projects that don't clearly benefit customers. This balance of power plays out within RTO governance, where different sectors vote on proposals and influence the debate. The challenge is ensuring that RTO decisions are not unduly swayed by those who stand to profit.

Merchant Transmission vs. Incumbent Utility Projects

The conflict between independent merchant transmission developers and incumbent utilities highlights RTO independence issues in sharp relief. Merchant transmission projects are built and funded by private developers (not by the rate base) and recover costs through negotiated contracts or market rates rather than through mandatory charges to all customers. In theory, a merchant line only gets built if there are willing buyers for its capacity, implying it meets a market need efficiently. Projects like Invenergy's Grain Belt Express are examples – planned as 800 miles of high-voltage direct current (HVDC) line from Kansas to Indiana/Illinois, the Grain Belt line aims to deliver cheap Midwestern wind power to eastern markets. Its costs would be covered by contracts with utilities or other buyers of transmission service, not by broad socialization among ratepayers. In fact, state regulators supportive of Grain Belt note that such merchant lines, "paid for by their customers, could save utility ratepayers money" by reducing the need for rate-funded projects.

However, merchant projects face significant hurdles in the current paradigm. RTO planning processes often do not fully account for a merchant line unless it is nearly certain to be built. MISO's exclusion of the Grain Belt Express from its models (because it was not a committed project within MISO's procedures) is a case in point. This creates a chicken-and-egg problem: the merchant developer needs the RTO to recognize its project to show benefits, but the RTO may wait until the project is built or has firm subscribers before including it. Incumbent utilities may not welcome merchant lines, viewing them as competitors or disrupters to their transmission plans.

A merchant HVDC line can sometimes provide an alternative path for power that undercuts the need for multiple smaller upgrades that incumbents would build. Moreover, merchant lines often connect regions (interregional), which can break down market silos and reduce the dominance of local utilities by importing cheaper power. It is telling that the ISO/RTO Council (the umbrella group of grid operators) opposed a special FERC technical conference on removing barriers to merchant HVDC projects, effectively stalling a

discussion on how to better integrate such projects. In contrast, a diverse set of supporters – including the National Association of Regulatory Utility Commissioners (NARUC), environmental groups, and large electricity consumers – favored exploring how merchant lines could be facilitated, citing their potential reliability and cost benefits.

The Grain Belt Express serves as a case study of merchant vs. RTO dynamics. Invenergy has secured regulatory approvals in all four states along the route and even a $4.9 billion conditional loan guarantee from the U.S. Department of Energy, signaling a strong likelihood of completion. Despite this, MISO's planning treated the 5 GW line as nonexistent, thereby justifying a massive internal 765 kV "backbone" build that might overlap in function. Invenergy filed a complaint at FERC in 2022, essentially accusing MISO of unfairly discriminating against an independent project that could benefit the region.

The MISO monitor's analysis backed Invenergy's claim, suggesting that if Grain Belt were included, the benefits of MISO's $22 billion Tranche 2.1 plan would shrink dramatically. In other words, some of those RTO-sponsored projects might not be justifiable. State consumer advocates echoed that absent FERC intervention, MISO consumers risk paying for redundant infrastructure. This scenario underscores how RTO independence can be compromised: if an RTO (consciously or not) favors its incumbent members' projects by sidelining a third-party solution, it raises the question of whether the RTO is truly acting independently or succumbing to member influence.

From a revenue standpoint, merchant developers earn money only by providing value that customers voluntarily pay for, whereas incumbents earn by default through regulatory charge allocation. If Grain Belt succeeds, it will sell transmission service to utilities (like municipal utilities in Missouri and investor-owned utilities in Illinois or Indiana) who find value in accessing cheaper wind power. Those purchasers will pay Invenergy through contracts, but other ratepayers not using the line don't pay. If, instead, MISO incumbents build their own lines, all ratepayers in MISO (potentially even those who won't receive the wind power) could be charged through regional cost allocation.

This highlights a key implication: merchant projects, when viable, can shift risk from ratepayers to investors. Incumbent utilities generally prefer the opposite – socialize costs and risks to ratepayers. Thus, despite potentially lowering overall system costs, merchant lines are often viewed warily by incumbent TOs and even some RTOs. They represent lost opportunities for rate-base growth and a challenge to the incumbent-centric planning approach. The Grain Belt case is still unfolding, and FERC's decision on the complaint will be a telling indicator of how far ISO/RTO "independence" goes in accommodating non-incumbent projects. It may also influence how future merchant proposals (like other HVDC lines bridging regions) are handled across RTOs.

Merchant transmission projects (like Grain Belt Express) offer market-driven, cost-saving alternatives to utility-built lines but face RTO resistance. Incumbent utilities often oppose them as competition, while RTOs exclude them from planning—raising concerns about true independence. FERC's pending decision could shape future grid competition.

Consumer and Regulator Perspectives

Consumer advocacy groups and state regulators have increasingly voiced concerns that RTOs are not sufficiently independent in practice and that current governance favors utility interests over consumers. These stakeholders provide a critical outside perspective on ISO/RTO operations. For instance, a coalition of consumer advocates from Maryland, Pennsylvania, West Virginia, and large industrial consumer groups filed a complaint in late 2024 seeking to overhaul how local transmission is planned. They argue that leaving local needs to the utilities themselves has led to "inefficient planning and projects that are not cost-effective, resulting in unjust and unreasonable rates." Their solution is to introduce independent transmission planners or oversight to ensure that projects truly needed regionally aren't bypassed in favor of many profitable local builds. The fact that this complaint targets not only utilities but also major RTOs indicates a belief that RTOs have not curbed the excesses of their members. Notably, it lists all FERC-jurisdictional RTOs (PJM, MISO, SPP, ISO-NE, CAISO) as respondents, suggesting a nationwide issue.

State utility commissions, which regulate retail rates and often see the direct impact of rising transmission costs on consumers, are also pressing for changes. The Maine Public Advocate's challenge to ISO New England's formula rate filing in 2024 revealed frustration with the opacity of transmission spending. Maine officials reported that when they tried to scrutinize $889 million of asset replacement projects (64% of New England's transmission spend that year), the transmission owners simply refused to answer questions, claiming the inquiries were outside the allowed scope. The Public Advocate bluntly expressed concern that utilities might be abusing the lack of review "to the benefit of their shareholders." Similarly, the Ohio Consumers' Counsel filed a FERC complaint noting Ohio utilities had added $6.5 billion in PJM supplemental projects since 2017 without need or prudence oversight. These examples reflect a pattern cited by consumer groups: RTOs have a blind spot when it comes to the cumulative impact of numerous utility-driven projects that fly under regional radar.

Even some FERC Commissioners align with consumer advocate perspectives. Commissioner Allison Clements has emphasized the need for FERC to ensure that new transmission is cost-effective and built with discipline, acknowledging that "many transmission projects are built with scant oversight" today. Commission Chair Mark Christie has been an outspoken critic of what he calls a "money machine" of ever-increasing transmission spending, urging more scrutiny on behalf of ratepayers. In one proceeding, he cheered state efforts to scrutinize RTO transmission plans, noting that while utilities have a right to earn a return, customers have a right not to overpay for unnecessary investments. This aligns with the position of consumer advocates that ISO/RTO governance must be reformed to curb utility overreach. Ideas floated include independent transmission monitors (akin to market monitors) to evaluate planning decisions, stronger FERC standards for project benefit-cost analysis, and giving state regulators a greater voice or veto in regional plans (since they ultimately answer to the public paying the bills).

Acknowledging the RTO and utility perspective in these dialogues is important. Incumbent utilities often argue that much of the transmission investment is genuinely needed – to replace aging infrastructure, meet reliability criteria, or interconnect new generation (like wind and solar). They caution that too much second-guessing or new bureaucratic layers (like an independent monitor) could delay critical upgrades at a time when the grid is stressed and transitioning. For example, the WIRES group (representing transmission owners) responded to the 2024 independent planner complaint by calling it "unnecessary, inefficient, and cumbersome," warning it would divert resources from ongoing regional planning efforts. RTOs themselves, while pledging support for consumer interests, often walk a fine line: they implement FERC policies and stakeholder input but rely on cooperation from their member utilities to actually build projects. If an RTO were too adversarial with its TO members, it could face compliance issues or backlash (since RTOs don't own any wires and must depend on TOs to execute projects).

FERC Oversight and ISO/RTO Independence

The Federal Energy Regulatory Commission is responsible for overseeing RTO independence and ensuring just and reasonable transmission rates. Over the years, FERC has issued orders to shape RTO governance and planning with independence in mind. Order No. 2000 (issued in 1999) set the original mandate that any RTO must be independent of control by market participants "in both reality and perception," aiming for a "professionally independent" grid operator. That order required features like an independent board and the exclusive authority for the RTO (not individual utilities) to file changes to transmission tariffs. Those principles remain, but the evolving complexities have exposed gaps. FERC Order 1000, for example, tried to reduce incumbent advantage by eliminating federal ROFR and encouraging competitive projects, but as noted, many incumbents sidestepped this via state laws. FERC cannot easily override state siting laws or compel utilities to cede construction to third parties, which limits its ability to enforce competition fully.

FERC has shown renewed interest in transmission planning reform and oversight in recent years. In 2022, FERC convened a Joint Federal-State Task Force on Electric Transmission, explicitly recognizing a "transmission oversight gap" and considering measures like independent transmission monitors or greater state involvement. Some FERC rulemakings in 2023–2024 (e.g., Order 2023 on generator interconnection and a pending large planning rule often dubbed Order 2024) include provisions for longer-term scenario planning and cost management. Notably, in a November 2022 technical conference, multiple state commissioners urged FERC to require Independent Transmission Monitors (ITMs) for each RTO, analogous to market monitors, to provide an impartial check on planning and spending. While no such requirement exists yet, Former Chairman Willie Phillips and others indicated openness to creative solutions for improving transparency and confidence in RTO decisions.

FERC has also intervened in specific governance issues. For instance, it rejected a 2021 proposal from PJM and its transmission owners that FERC found would undermine Order 2000's independence standards. In response to the Public Citizen protest about PSE&G's project, FERC will review whether costs

arising from utility misconduct can be passed to ratepayers, a decision that could set precedents for RTO oversight expectations. Essentially, FERC is being pushed by external pressures (states, advocates, even its own monitor reports) to tighten the reins on RTO transmission governance. At the same time, FERC recognizes the need for massive transmission expansion for reliability and clean energy goals, creating a delicate balance: how to encourage needed investment while ensuring that RTO planning truly serves the public interest, not just utility balance sheets.

ISO/RTO independence in governance remains a work in progress. As one legal scholar remarked, "independence is no longer a viable precept of governance" if it means ignoring the influence of powerful stakeholders. Therefore, solutions being considered include governance reforms to give more voice to consumer and public representatives, independent checks on planning, and performance-based incentives to align utility profits with consumer benefits (rather than just capital deployed). Some have even suggested more radical ideas like reviving the Transco model (independent, for-profit transmission companies regulated tightly on performance) or increasing public ownership of transmission, though these ideas face political and practical hurdles.

- **FERC ensures RTO independence** via orders like 2000 & 1000, but gaps remain
- **2022 reforms** proposed Independent Transmission Monitors for better oversight
- **Recent FERC actions** block biased utility proposals, improve planning rules
- **Struggle to balance** grid expansion needs vs. fair consumer rates
- **Governance reforms debated** more consumer reps, performance incentives, Transcos

Conclusion

U.S. ISOs/RTOs were founded on the principle of independence – to operate and plan the grid free from self-interested agendas, thereby delivering fair access and efficient investment for the public good. In practice, however, the governance structures and incentive environment have allowed incumbent utilities and transmission owners to exert significant influence over RTO decision-making. Incumbents, often the original members of these organizations, remain deeply involved in committees and planning processes, shaping outcomes in ways that can favor their own financial interests. As a result, transmission planning within RTOs can sometimes tilt toward expansive buildouts that bolster the utility rate base, even when alternative solutions (including merchant projects or non-wires alternatives) might offer lower costs to consumers. The beneficiaries of the current system are largely the transmission-owning utilities and dedicated transmission companies, which enjoy guaranteed cost recovery and attractive returns on investments approved through the RTO framework. Meanwhile, the end consumers – who fund all projects through rates – rely on regulators and RTOs to safeguard their interests and keep costs in check.

The evidence suggests that ISO/RTO independence is constrained by structural and economic factors. RTOs depend on stakeholder consensus to function, and incumbent stakeholders naturally advocate for their interests. Publicly traded utilities prioritize shareholder value, which incentivizes greater capital investment in transmission, sometimes at odds with the goal of minimizing costs for ratepayers. Instances like the MISO-Grain Belt dispute show how an RTO might sideline a project that doesn't fit the incumbent-driven paradigm, prompting intervention from market monitors and regulators. At the same time, not all transmission expansion is unwarranted – the grid is aging and needs upgrades for reliability and clean energy integration. The key issue is ensuring those investments are truly prudent and optimally selected.

Perspectives from consumer advocates and state regulators highlight a growing demand for reforms to bolster RTO independence and accountability. These include calls for independent transmission monitors, stronger FERC oversight of planning assumptions and local projects, and greater transparency of utility decision-making. FERC's own actions, from Order 1000 to recent rulemakings, show an ongoing effort to refine the balance between stakeholder input and independent judgment. Moving forward, the independence of ISOs/RTOs will likely be defined not just by the absence of direct utility control but by the presence of robust checks and balances that ensure no single interest – especially those of incumbents – can dominate to the detriment of consumers or new market entrants. Achieving this will require vigilance from FERC, engagement from states, and perhaps a cultural shift within RTO governance to re-embrace the principle that motivated their creation: an impartial steward of the grid, accountable to the public interest above all.

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+1 463-266-4496

INFO@VEDENI.ENERGY

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WHITESTOWN, IN 46075, US.

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