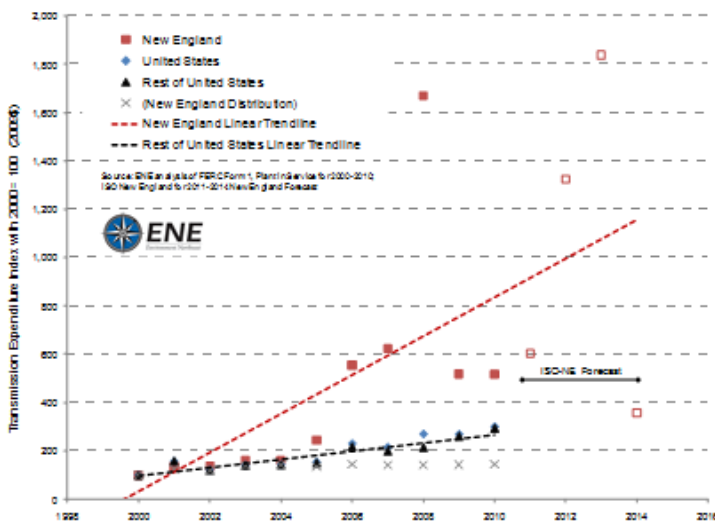


New England Reliability and Transmission Planning - Need for Reform

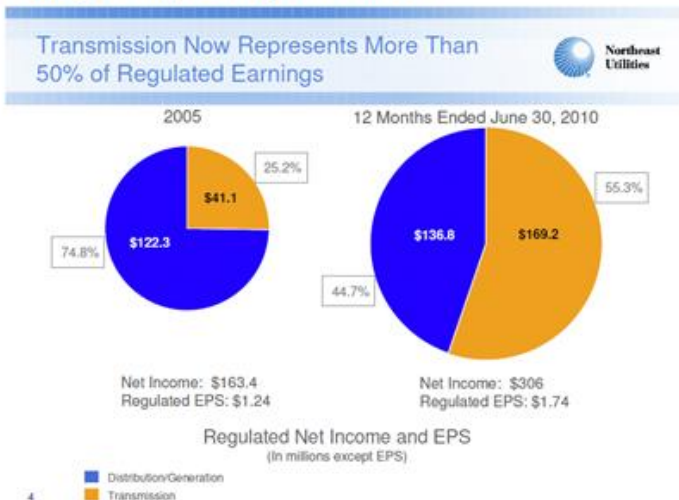


Utility investment in transmission and transmission rates are skyrocketing in New England, and at levels that are significantly higher than the rest of the country. Consumers and clean energy advocates have historically had little access or ability to affect the standards driving transmission investment decisions, or to propose lower cost solutions. The operator of the New England electric grid, ISO New England (ISO-NE), does not adequately consider whether consumers' needs for a reliable transmission grid could be met at a lower cost and with less environmental impact through non-transmission alternatives (NTAs). Non-transmission alternatives include energy efficiency, demand response programs that curtail electric load at peak hours, clean distributed generation, and renewable energy. We see four specific problems:

Skyrocketing Transmission Costs in New England vs. Rest of U.S. Since 2000



Transmission Investment Drivers: ROE (13%!) & Utility Incentives



1) **Runaway Costs:** The ISO-NE and regional transmission owners have spent about 5 billion dollars over the past 10 years and have plans to spend an additional 5.7 billion dollars over the next 4 years on upgrades to the regional electric transmission system.¹ These expenditures are growing at a faster rate than the national average.

2) **Excessive Rate of Return:** Current rules provide transmission companies a high rate of return, higher than from other investments, to build transmission in the region. FERC's currently-allowed 13% rate of return for certain transmission investments, plus other incentives, creates a clear incentive to build transmission lines and to maximize project costs as opposed to providing reliable service at lower cost to ratepayers through adoption of NTAs that would, however, provide lower profit for the utility. The result, not surprisingly, is a complete transformation of major utilities' business models. For these reasons, an investor owned utility like Northeast Utilities has changed its business model between 2005 and 2010 from roughly 25% transmission to over 50% transmission.

3) **Un-level Playing Field:** Because the costs of transmission projects are "socialized" throughout

the New England region, any particular state's ratepayers pay only a percent of the total costs. In contrast, the costs of NTAs are not socialized, but instead are borne entirely by the relevant state's ratepayers. So rates in any given state could rise more with an NTA solution, even if it is less expensive on a total cost basis. The result? Only transmission solutions are being built to address reliability concerns, despite the fact that they may be an expensive choice for the region.

- 4) **Lack of Oversight & Prudency Review:** We do not believe federal agencies adequately oversee multi-billion dollar transmission investment decisions, and consumers have little say in the process. States have a limited role in the process and often have inadequate resources to participate. FERC does not adequately ensure that wires investments are truly needed to address reliability, or that transmission project costs are "just and reasonable," including whether the project benefits exceed the costs, including quantifiable indirect costs and benefits. Furthermore, NERC and the ISO-NE view their roles more as "keeping the lights on," as opposed to keeping costs down.

Project Goals

ENE is engaging with stakeholders to be the voice for policy reforms needed to promote cost-effective NTAs at state, regional, and federal forums. We are focusing our efforts on reliability planning, and not on interconnections related to new generation resources like renewables. High costs related to reliability pose a risk to advancing other energy goals, in that limited energy dollars may be less available for efficiency and renewable power. In addition, higher utility bills threaten economic growth and competitiveness.

ENE is advancing:

- Reasonable Planning: ensure load forecasts are reasonable and fully incorporate efficiency and other policies that reduce demand;
- Standards: ensure that NERC reliability standards are worth the cost and reasonably implemented;
- Level the Playing Field: planning and cost allocation, or any market solution, should allow all resources (transmission and non-transmission) to compete and be consistently evaluated;
- Reform Utility Incentives: ensure a reasonable ROE and address cost overruns; and
- Improve Regulatory Oversight: ensure prudency, just and reasonable rates, and an appropriate role for state regulators that includes earlier, objective analyses of NTAs' ability to meet the identified reliability need at lower cost.



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ENE is a nonprofit research and advocacy organization focusing on the Northeastern United States and Eastern Canada. Our mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the environmental and economic sustainability of the region.

ⁱ ISO New England, *RSP Transmission Projects, June 2012 Update*, http://www.iso-ne.com/committees/comm_wkgrps/prtcpnts_comm/pac/mtrls/2012/jun192012/june2012_project_list.pdf