



TAPS Position Paper Transmission Investments and Siting

Almost everyone agrees that the interstate transmission grid must be expanded to improve reliability and provide the infrastructure needed for competitive wholesale markets. There are significant disagreements, however, as to how to achieve this goal. Outlined below is the TAPS position on how to build a strong, competitively neutral interstate transmission system at the lowest possible cost.

TAPS is an association of transmission-dependent utilities and other supporters of equal, non-discriminatory transmission access and vigorously competitive wholesale electric markets. TAPS members are located in more than 30 states.

1) Regional, Single-System Planning and Construction is Essential

- The most important step is the establishment of large, truly independent Regional Transmission Organizations (RTOs) that have planning responsibility for the regional grids under their control.
- Single system planning will be a dramatic improvement over a grid planned by numerous owners with different competitive agendas.
- Federal legislation should provide that RTOs have responsibility to plan and build, or cause construction of, transmission facilities necessary to create and sustain competitive wholesale markets and provide a high degree of regional reliability for end use customers.
- To raise needed capital, RTOs should be authorized to finance the transmission facilities themselves or to bid out the fixed costs of ownership (including the return required, taxes and depreciation) to investors willing to be passive owners and looking for a low-risk, stable return.
- Public power RTO participants should be permitted and encouraged to finance and build their share of needed grid improvements.

2) Existing Owners Should Not be Relied on to Invest in New Transmission

- To facilitate construction of needed transmission, we must tap new sources of capital interested in the safe return that transmission investment provides.
- Today, transmission construction is in the hands of vertically-integrated utilities that own both transmission and generation. This is a primary reason why very little new construction has taken place in the last decade. Many of these owners risk losing substantial amounts of money if they construct new transmission that opens their generation up to competition. Even hefty incentives paid by captive transmission customers may be insufficient to overcome this competitive disincentive.
- The reluctance of vertically integrated investor owned utilities to construct is increased by their diversifying into unregulated generation and other investments that have a

significantly different risk profile than transmission. Companies looking for 15-30% returns, with 5-8 year paybacks, and willing to take the associated risk are not going to be interested in investing in transmission, with its lower risk and return profile.

- The solution is to design an RTO regime that will attract capital from equity investors looking for a solid 10-12% return –similar to the old “blue chip” utility returns –year in and year out, with low risk. These investors are very different from the investors looking for a 15 to 30% return and willing to risk much lower returns.
- Once a transmission line is built, the risk is relatively low and significantly lower than investing in generation. As a recent Fitch Report on the new American Transmission Company (WI) notes, over 95% of this transmission-only company’s revenue requirement is guaranteed recovery from its firm, network customers—regardless of changes in load or weather.

3) Rates Should Reward Excellent Performance

- Performance-based transmission rates –not bribes to join RTOs—may be appropriate. Transmission providers that exceed customer expectations, eliminate constraints promptly, and have excellent reliability should be rewarded. Providers that are below average should be penalized.
- FERC has the authority today to approve any rate that is just and reasonable, including any incentive rate that meets that test. No additional FERC authority is needed.

4) A New Siting Process is Needed

- A major impediment to development of a robust transmission system is the current, fractured state-by-state siting process.
- Frequently, the transmission “fix” needed to relieve congestion in State A is expansion of a transmission facility in State B. Those additions are not likely to be approved if they do not provide a significant local benefit to consumers in State B.
- A number of states have laws or regulations that prohibit approval of facilities that do not benefit in-state consumers. Unless transmission planning and construction moves forward on a regional basis, needed transmission infrastructure almost certainly will not get built.
- While there is an argument that transmission facilities serving national or regional needs should be sited by FERC, as is the case with natural gas pipeline facilities under the Natural Gas Act, federal siting is strongly opposed by a number of states. An alternative solution is to authorize states to establish joint siting boards that mirror the scope and configuration of RTOs. The siting boards should provide a “one-stop” approval process for facilities in approved RTO siting plans. The test should be meeting regional and interregional market and reliability needs in a manner that balances the need to minimize adverse environmental and landowner impacts consistent with reasonable cost. If the states fail to form joint authorities, or fail to act on RTO plans within reasonable deadlines, siting, along with the necessary eminent domain authority, should default to FERC, backed by federal eminent domain authority.