

Statement of Thomas L. Welch
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The emergence of markets as a way of allocating resources and bringing benefits to consumers has revealed, if not created, a number of inherent tensions in our collective efforts to ensure a reliable and economically efficient electricity infrastructure. The particular tension relevant here is between ensuring sufficient ability to move power within and among regions on the one hand, and on the other avoiding structural or systematic bias in favor of transmission at the expense of other approaches that might be capable of delivering the persistently adequate and reliable supply of electricity that our economy and customers demand.

I have a strong preference for markets as large as information systems, line losses, and the practicalities of dispatch and coordination permit. Where markets are larger, the overall efficiency of the system is improved to the benefit of the market area as a whole. Larger markets permit the capture of the benefits of dispatch over a larger set of available resources; take advantage of load smoothing available when areas with different climate and demographics act in concert; increase fuel diversity and security; and reduce the opportunities for the exercise of market power. Moreover, advances in information technologies now permit "real time" control, trading, and monitoring in much larger electricity markets than was possible a few years ago. For this reason, it is likely that any transmission project, by increasing the extent to which lower cost power can be brought to higher cost areas, is likely in some degree to enhance the overall welfare of the entire market.

It does not follow, however, that every possible transmission line should be built, or that all areas of the market should bear equally the entire cost of every major project. We should not prejudge appropriate solution to "how" to make infrastructure and capacity sufficiently robust. All approaches -- new generation, distributed generation, conservation (both persistent and peak shaving), in addition to transmission, should be evaluated (and stimulated) through market and regulatory mechanisms that do not produce "artificial" results, i.e., results that do not reflect underlying economics or underlying physics.

In a closely analogous way, policy -- including systems of cost allocation -- should reflect to extent possible and practical the geographic scope of benefits. The reasons for assigning at least some cost elements to the area that will benefit most are both economic and equitable. On the economic side, if the costs imposed by local aesthetic and political concerns are socialized broadly for transmission, but not for other solutions (such as generation, distributed generation and demand response), transmission may become the preferred solution even if it is not the most economically efficient. With respect to equity, it seems difficult to justify taking money from areas that lag in

economic growth and the accumulation of wealth -- which drive, respectively, the need for additional supply and the political force for less aesthetically intrusive solutions -- and distributing that money to areas whose very success suggests that they have ample ability to pay. Put another way, those of us in less prosperous and slower growing areas can understand why we should pay some portion of projects built to improve the overall economics and reliability of the system of which we are a part; but it is impossible to understand why we should be asked to carry the additional cost burden of satisfying the aesthetic sensibilities of those whose very prosperity has created the need in the first place.

Some may argue that, because a line needed for reliability will not be built unless local concerns are met, the cost of meeting those concerns should be socialized to improve the chances of construction. Accepting such an argument is fraught with peril to our collective pocketbooks; such a policy would effectively transfer to local siting boards the right to determine what costs are socialized, and remove any incentive to achieve either economic efficiency or equity.

This concern is not merely hypothetical: In the deliberations of the Connecticut Siting Board itself of the proposed Phase One upgrade in SWCT, the siting board considered that Connecticut ratepayers would have to pay only 25 percent under a socialization scheme. And because Connecticut ratepayers would have to pay only a small share of the total cost of the project, the siting council was willing to approve a plan for using underground transmission lines to address local concerns even though this plan substantially increased the cost of the project.

A similar example of this phenomenon is a report performed for VELCO. In this report, the consultants examined the cost of the transmission alternative not in terms of the cost of the entire project but in terms of the amount that would be allocated to VELCO ratepayers if the cost of the project were spread across the pool. Thus, Vermont regulators might not consider the true cost of the project in determining whether transmission is the best alternative, and would instead consider the small portion that VELCO ratepayers would pay for the project. This type of comparison does not place transmission on an equal cost footing with generation (for example), because the costs of generation are not socialized across the pool. The distorting effects on the price signals that LMP is intended to produce are obvious.

In Maine, the legislature itself has considered a closely analogous issue, and concluded, correctly in my view, that the additional costs imposed by local community concerns should be borne by the local community. Where a community has designated an historical district, for example, the community can insist that the utility either place its structures out of view or underground; but, where such a demand is made, the municipality must bear the cost of doing so.

In conclusion, I fully recognize the need in parts of Connecticut for relief from the reliability concerns that have been (and will be) outlined today. I am also prepared to defer to the ISO's finding that the best available alternative is the construction of new

transmission that can bring additional power into the area. I am even prepared, for the purposes of today's discussion, to recognize that there will be widespread benefits to such new transmission for the entire region, and that the region as a whole can reasonably be asked to share in some of the costs. (I say "for today" because, as you know, Maine currently has on appeal the particular cost allocation method adopted by the ISO and approved by the Commission, on the ground that method already socializes too much.) I do not believe there is any justification, however, for asking consumers of electricity outside of the local area to pay for costs beyond those minimally required to build a transmission line that satisfies the dictates of electric reliability. The Commission should thus support the ISO's policy that excludes from socialization costs for undergrounding facilities where an aerial alternative is cheaper. In the longer term, we should continue to work towards a more fully integrated system of economic incentives so that, unlike today, decisions among transmission, generation, distributed generation and demand response can be made, preferably by the market, on their underlying economic and reliability attributes and not on systems of unjustified subsidies.