

FEDERAL ENERGY REGULATORY COMMISSION

**Technical Conference on Integrating Renewable Resources Into the Wholesale
Electric Grid**

Docket No. AD09-4-000

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**Comments of Joseph L. Welch
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ITC Holdings Corp. (“ITC”) is the first and largest fully independent transmission company in the United States. ITC is focused on ownership, operation, maintenance and construction of transmission facilities as its single line of business; there is no internal competition for capital. ITC is now the eighth largest transmission-owning company in the U.S., in terms of load served.

“Independence” means that there is de minimis or truly passive ownership by market participants and that there is minimal operating dependence on, and ongoing relationships or affiliation with, any market participant. To safeguard ITC’s independence, the company, its employees and their immediate family members do not hold any market participant investments.

Through its independence, ITC has been able to maintain a singular focus on improving transmission: making it more reliable, more efficient, lowering the cost and ensuring non-discriminatory access. In essence, the independent model aligns the interests of the company and its shareholders with those of electricity consumers.

This independence is of particular importance as it relates to decision-making for field and control room operations, generator interconnections and both local and regional planning. A non-independent transmission owner faces competing interests. As such, independence from the energy market influence is critical in consideration to the electric transmission grid; however, the concept of independence should not be limited to the electric transmission companies. Equally essential is the independence of any regional planning organization with supporting governance and decision-making processes established in a manner that do not provide undue opportunity to thwart transmission development by stakeholders.

Need for a National Energy Policy to Guide Planning

Many of the issues set forth in the agenda for today’s technical conference are the symptoms of two fundamental underlying problems: the lack of a national energy policy to guide planning and the lack of independent regional transmission planning to achieve regional and national policy objectives. The first problem is not within the Commission’s control; if we had a national renewable portfolio standard and federal regulation of greenhouse gas emissions, it would be easier to know and plan for the regional transmission that this country needs.

Regional Planning under Order No. 890

On February 15, 2007, the FERC adopted its final rule reforming its open-access transmission regulatory framework meant to ensure transmission service is provided on a nondiscriminatory and just and reasonable basis. One of the primary features of Order No. 890 is increased transparency in the planning and use of the electric transmission system. According to the order, the planning process must continue to meet the FERC's nine planning principles, which are coordination, openness, transparency, information exchange, comparability, dispute resolution, regional coordination, economic planning studies, and cost allocation.

ITC is a member of the Midwest Independent Transmission System Operator ("Midwest ISO"), and in ITC's estimation the Midwest ISO has established a first rate technical staff and done a noble job working within the confines of the existing system that was thrust upon them to develop consensus around the Midwest ISO Transmission Expansion Plans. However, the Midwest ISO and its peers face significant challenges in their ability to develop truly regional transmission improvement plans under the current system due to existing their existing governance structures and the stakeholder process. While it is critical to obtain input from stakeholders, in its application it has at times prevented regional transmission projects from being considered or developed. It is the endeavor for a transparent planning process that has ultimately led to the undue influence of market participants and the subsequent derailment of true regional transmission plans.

Application of Order No. 890 Under the Current RTO Structure

The problems that prevent the development of truly regional transmission plans, however, can be solved by FERC. You may ask: how can it be said that there is no independent regional transmission planning given all the attention that the Commission has devoted to the creation and governance of Regional Transmission Organizations ("RTO") and Independent System Operators ("ISO")?

Voluntary Membership

The largest challenge that independent planning faces under the current model is that membership in RTOs, and thus participation in regional planning and cost sharing, is voluntary. If the regional/public interest and the interest of an individual member diverge, market participant stakeholders may endorse solutions that are not optimal for the region but rather satisfy the stakeholders' individual interests. If the RTO attempts to impose a solution that is in the regional interest, the stakeholder may threaten to leave the RTO potentially using membership fees as leverage. Additionally, individual states have the potential to leverage the voluntary membership to pressure its local utilities to leave the RTO if the state does not support a planned project and its associated cost.

Conflicts of Energy Markets and Transmission Planning

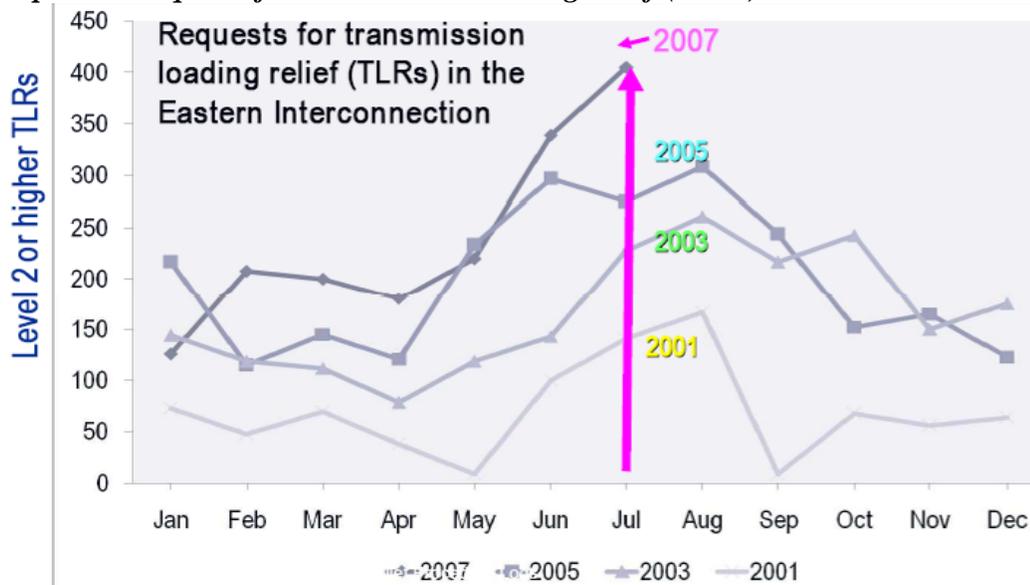
Additionally, another challenge faced by RTOs is related to their respective governance structures. Owning responsibility for both planning transmission and running the energy market may present competing interests. While a utility may want to join an RTO as a

means to participate in the energy market, it will seek ways to avoid having its transmission system encumbered by any regional planning efforts as shown in the recent FERC order in which the Midwest ISO had requested that FERC approve the ability of utilities neighboring the Midwest ISO become a part of the Midwest ISO energy market without having to join the RTO as a full member. Ultimately and wisely, FERC denied this request, but the request in itself is a demonstration of the conflict of interest of having the RTO responsible for both transmission planning and energy markets.

This conflict of interest often results in RTOs relying on re-dispatch solutions instead of re-enforcing the transmission system. Indeed, one inadvertent byproduct of LMP markets is that the ability to purchase rights to “buy through” congestion effectively prevents building the transmission that would avoid the congestion in the first place. The consequences of doing business this way are evident. To begin, transmission and distribution losses nearly doubled between 1970 and 2001 (from 5 percent to 9.5 percent) due to heavier utilization and congestion. This is exacerbated by the belief that modeling can be done to such a level that all of the benefits of transmission additions can be accurately calculated.

Additionally, as shown below, transmission loading relief (“TLR”) orders in the Eastern Interconnection have grown dramatically as a result of the lack of transmission investment and the ability to be made “whole” through the LMP markets.

Graphic 1: Requests for transmission loading relief (TLRs)¹



Influence of Market Participants

As alluded to earlier in the discussion of the voluntary nature of RTOs, the existing governance structures and stakeholder processes compromise the RTOs’ ability to independently plan the transmission system due to the influence of market participants

¹ http://www.eia.doe.gov/conf_pdfs/Monday/owens.pdf

Because membership is voluntary and because market participants continue to play critical roles in RTO decision-making, RTOs cannot plan transmission from a truly independent perspective. The stakeholder processes to which RTOs are bound, and to which the Commission continues to defer in Order No. 890, for example, can never be independent because the “stakeholders,” by definition are operating on behalf of their own needs and can “vote with their feet”. In fact, several Midwest ISO TOs have submitted letters of potential withdrawal ostensibly as a means to keep pressure on the RTO to protect their interests.

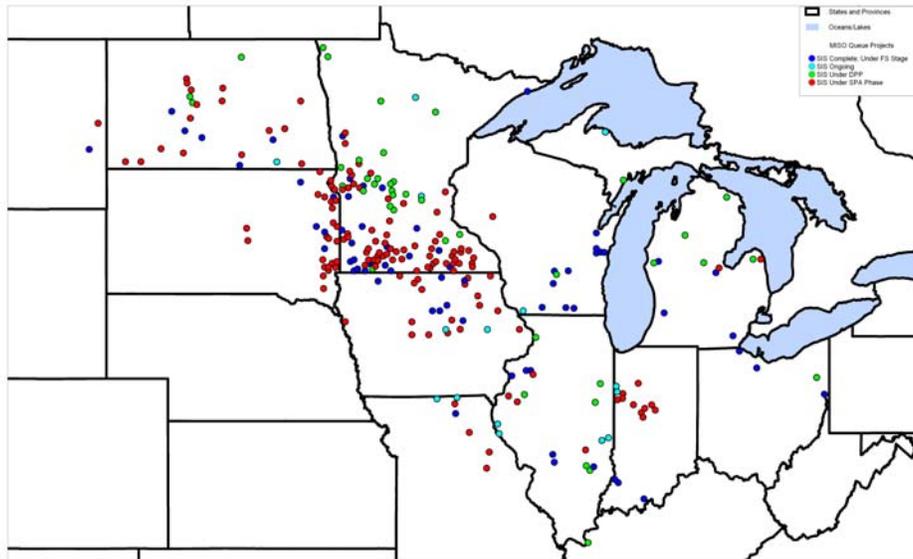
The existing stakeholder processes result in transmission planning focused on the least common denominator rather than on developing a robust regional plan. Each transmission upgrade is viewed as having winners and losers. Even stakeholders from the same sectors have varying interests. For example, generators in high cost areas have an incentive to frustrate transmission plans as a means to maintain existing constraints whereas generators in low cost areas want to remove existing constraints as a means to broaden their access to markets. Conversely, load regions with high costs want to remove the constraints in order to access more economic sources of energy while load regions with low costs are incented to maintain existing constraints as a means to insulate there area from market prices.

In many cases such as these, the individual state regulators have had a parochial view and attempted to exert influence over the planning process as a means to optimize conditions for their individual state. This presents a case of competing interests because national policy issues such as climate change and the environment, energy security, regional reliability and market competitiveness cannot be addressed on a state-by-state basis.

Generator Interconnection Queue

The challenges inherent with the existing governance structure and stakeholder driven planning processes have had one notable result – little to no true regional transmission has been planned or built. As the demand for the integration of wind and other renewable resources grows, the ability to effectively develop regional plans to interconnect these resources where the best source of wind is located is stifled. As shown in the map below, the current planning processes within the Midwest ISO do not support the level of demand for the integration of the wind resources in the Upper Midwest where there is a high wind capacity factor. According to some estimates, a new generator would potentially have to wait up to 46 years in the generation interconnection queue before its project can be studied by the Midwest ISO. Clearly, the reactive planning that occurs under the current configuration will not work as a means to build the needed regional transmission.

Graphic 2: Midwest ISO Generator Interconnection Queue²



In sum the fundamental issues facing transmission planning under the current RTO configuration are directly related to the voluntary nature of RTO membership and the stakeholder-driven planning process that promotes an undue influence of market participants in the development of regional plans.

Integration of Wind and Other Renewable Resources under Current Model

According to the American Wind Energy Association, up to 305 GW of installed wind capacity is achievable by 2030. Currently, there is approximately 20 GW of installed wind capacity in the U.S., and while this may appear to be an impossible task, ITC believes it is achievable under the appropriate circumstances if a proactive regional approach to transmission system expansion is begun today.

As detailed earlier, the existing regional planning processes within the RTOs under Order No. 890 face significant challenges due to the voluntary nature of RTO membership and the cumbersome stakeholder process.

In response to this need, ITC dedicated a considerable effort to develop a project called the “Green Power Express” as a means to bring wind power from the Upper Midwest to the population centers. The Green Power Express is a broad network of 765 kV transmission facilities that has been designed to efficiently move renewable energy in wind-rich areas to major Midwest load centers. The Green Power Express is consistent with the vision outlined by President Obama in his national energy agenda. President Obama specifically mentioned his desire “to get wind power from North Dakota to population centers, like Chicago.”

² http://www.midwestmarket.org/publish/Document/735a38_109988af51a_-7f5e0a48324a/MISO_Queue_Map.pdf?action=download&property=Attachment

The Green Power Express will allow this goal to be met as well as set the stage for the integration of off-shore wind in the Great Lakes in the future. By having a robust extra high voltage (“EHV”) grid that serves as the backbone to wind energy in various regions, the geographic diversity of the wind is increased mitigating some of the challenges with this naturally intermittent resource.

In effect, through the development of the Green Power Express, ITC filled a gap that exists within the industry due to the existing RTO governance that does not currently give the RTOs direction to do regional planning without undue influence of market participants. The absence of market participant influence and ITC’s independence from undue market participant influence was critical in developing the right solution that improves electric reliability, effectively and efficiently integrates high capacity renewable energy to promote a cleaner environment, protects national security, and the environment. However, it should be recognized that while ITC was able to develop this plan free from undue market participant influence, the project will likely face the same challenges related to pressure from stakeholders related to individual interests as ITC shepherds the Green Power Express through an Order No. 890 compliant process.

It is widely recognized that the Upper Midwest is a region that has great potential to develop wind energy facilities. There are other regions that have similar opportunities such as wind in the Great Plains region or solar energy in the Southwest. Generation from these potential resources is intermittent due to the discontinuous nature of wind and solar “fuel”. As such, regional diversity will provide significant benefits as a means to dampen the impact of this resource intermittency. Consequently, independent regional transmission planning is essential as a means to identify and capitalize on the vast amount of renewable resources economically while protecting the overall reliability of the grid.

Moving Forward on Regional Planning

The purpose of today’s technical conference is to address regional system planning as a means to integrate renewable energy. Unfortunately, where we stand today will not serve as an effective enabler to get the necessary regional transmission built in support of the nation’s vision of renewable energy.

ITC’s experience as an independent transmission company has given us unique insight into the value of independence in transmission operations and planning. This independence should not be limited to the transmission owning entity but should be extended to regional planning by the RTOs and further enforced by requiring that RTO membership be mandatory for purposes of transmission planning and cost allocation. Only then when we have a robust and flexible national electric transmission grid that does not provide discriminatory access to any one party will the U.S. be able to benefit from the vast energy resources available.

Lastly, while a long-term solution is required, ITC believes that there is an interim-solution that can be considered and implemented by FERC. ITC believes that many of the policy vision goals held by FERC and other leaders can be achieved by requiring the

RTOs to generate regional transmission plans under the instruction of FERC. For example, FERC could instruct the RTOs to develop a regional overlay plan for their respective regions, and then the RTOs would be then required to submit these plans to the FERC under a docket that is open for intervention and comment by stakeholders that were not involved in the development of the plans. This would set a finite time for comment so that the regional transmission plans could be compelled forward while fitting nicely into the FERC's nine planning principles.