

Northeast Utilities' View on Getting Transmission Built in a Restructured Electric Industry

- I. **Description of the Problem:** The separation of generation, transmission and load-serving responsibilities in a restructured electric industry creates a new set of issues and concerns which affect the ability to get transmission built. These issues and concerns must be resolved promptly in order for restructuring to be successful.
- II. **Core Elements of a Solution:** There are three core elements to the problem and Northeast Utilities believes there is a straightforward and equitable solution to each of them.
 - A. A planning process is needed that replaces integrated resource planning for vertically integrated utilities. This new planning process must allow for consideration of both market and regulated solutions to identified needs and accommodate federal, state and stakeholder roles and interests.
 - B. A clear policy is needed for assigning cost responsibility for transmission upgrades. This Commission can and should adopt simple, objective rules that reflect principles of cost causation and therefore economic efficiency. The failure to adopt clear cost responsibility rules will retard the timely construction of new projects.
 - C. Appropriate monetary incentives must be provided for the construction of new transmission facilities. This encompasses attractive pricing policies for both merchant and regulated transmission projects.
- III. **The New England Transmission Planning Process:** ISO-NE has developed a workable transmission planning process that is consistent with the first core objective identified above. ISO-NE is in the process of finalizing its second regional transmission expansion plan - RTEP02. We support this planning process, which includes the following elements.
 - A. **Step One:** The ISO conducts a regional needs assessment. Stakeholders that foresee a need can supply relevant information, which the ISO assesses together with the information it has from operation of the markets and obtains from market participants. Identified needs are published and subject to review and criticism before being finalized.
 - B. **Step Two:** The ISO solicits information concerning market solutions to identified regional needs. These may include generation solutions, merchant transmission proposals, demand side management and new technologies that increase the capability of the system. The ISO evaluates these market solutions to determine whether the regional transmission plan needs to include a regulated solution to the identified need.
 - C. **Step Three:** Where the ISO concludes that adequate, dependable market solutions have not been identified, regulated transmission solutions will be included in the transmission plan. Incumbent transmission owners undertake a responsibility to build cost-based projects as the regulated "builder of first resort."
 1. Regulated transmission projects identified in the plan are subject to a construction RFP to ensure lowest cost construction.
 2. The Commission should avoid disputes over who gets to own regulated transmission projects. This is a minefield related to property rights associated with existing facilities, rights-of-way and eminent domain rights that will cause projects to be delayed and waste money and resources with no material offsetting increase in efficiencies.
 3. The ISO may remove a regulated project from the plan if a market solution emerges later, although the regulated transmission owner must be compensated for costs incurred to satisfy its construction responsibilities under the plan.
- IV. **Cost Responsibility:** Northeast Utilities proposes a set of rules that are straightforward and use fewer distinctions than some recent proposals.

- A. There are two generic categories of regulated transmission projects, for which different cost responsibility rules are required.
 - 1. The first are transmission upgrades that are *not* associated with (caused by) specific generation projects. These projects may be justified by reliability requirements, a combination of reliability and market efficiency, or purely market efficiency. However, it is not necessary or appropriate to distinguish projects based on reliability versus market efficiency for cost recovery purposes.
 - 2. The second are system upgrades that are directly associated with the installation of one or more new generators on the electric system. We support use of the “but for” test applied by PJM to identify these upgrades.
 - B. For projects that are not associated with new generation, we believe that the Pool Transmission Facilities (PTF) rules currently in use in New England are the right type of solution. New England’s PTF rules are similar in nature to those adopted by PJM, which assign costs based on voltage level. The current NEPOOL tariff is based on sound cost causation principles and is not inconsistent with the adoption of LMP. A new pricing policy which attempts to identify specific beneficiaries and assign costs based thereon will not succeed because the “benefits” determination will always be subjective and controversial, virtually ensuring litigation and project delay. The NEPOOL tariff is understandable, easy to administer and has not inhibited transmission investments. The Commission should not allow the perfect to be the enemy of the good.
 - C. For projects that are directly associated with new generators (using a “but for” test), the Commission should, as in PJM, assign the costs of the upgrade to the generators causing the facilities to be built, and the generators should receive incremental CRRs (financial rights model). We recognize that other transmission users may benefit from the upgrades, but believe that other factors vastly outweigh this consideration.
 - 1. First, in the absence of integrated resource planning, generators must get a price signal to locate their plants efficiently from a transmission perspective. Otherwise, the transmission system will become inefficiently congested and generators may be locked-in without the ability to deliver their power throughout the region. This is already occurring in New England.
 - 2. Second, in an efficient market, prices should reflect differences in the total economic cost associated with the new generator. Some of these costs are hidden from the market if a generator in an adverse location does not pay for transmission it causes to be built.
 - 3. Conversely, the Commission should consider mechanisms to compensate generators that make beneficial location decisions that reduce congestion or eliminate reliability concerns.
 - D. New England has already moved to region-wide transmission rates for PTF and the Commission should not move backward towards license-plate rates for purposes of cost recovery.
- V. **Monetary Incentives:** The Commission appears to be on the right track in terms of providing monetary incentives to invest in new transmission.
- A. The Commission should continue to be open to new merchant transmission pricing proposals with the goal of stimulating new transmission investment by merchants operating outside the regulated, cost-based regime.
 - B. The Commission should continue its policy of offering attractive ROEs to public utilities that participate in ISOs and RTOs. From the perspective of a company that wants to be active in the transmission business, we can state that the Commission’s MidWest ISO decision provides an effective positive incentive to invest.