

# Megawatt Daily

April 22, 2009

## Browner urged to push 'sensible' grid reform

The US must implement "significant and sensible" reforms to the current "often dysfunctional" processes for planning, siting, and allocating the cost of high-voltage electric transmission, an industry group said in a recent letter to Carol Browner, White House adviser for energy and climate change.

Congress should provide a "more predictable roadmap" for grid upgrades and development both to meet the administration's clean energy goals and to address operational and economic demands that will be placed on an already stressed and congested system in the coming decade, asserted the April 17 letter from the Working Group for Investment in Reliable and Economic Electric Systems, or WIRES.

In a note of caution, WIRES said many reforms currently under discussion would facilitate expansion for limited purposes and thus risk leaving regulation "balkanized regionally, by resource type, size or according to governing rate or siting regimes."

That result would only contribute to further market dysfunction and regulatory delay, the letter said.

Rather, reforms must reflect the critical importance of grid upgrades and expansions to the future clean energy economy, WIRES said. At the same time, they must recognize the "unique role of the grid as a whole, the technical complexity of the system" and the strengths and weaknesses of existing institutions and arrangements underlying grid operations.

WIRES identified several key issues to be considered as part of the legislative debate.

A secure clean energy economy requires grid modernization, the group said. The existing system was designed to move power short distances from generation to load centers. The way to ensure access for remote resources like wind is to reform regulatory processes to allow major transmission additions that tap those resources, WIRES said.

This modernization must effectively address many challenges, WIRES continued. For example, not only are major expansions needed, but much of the existing grid "has aged past its useful life," it said. In addition, "chronic congestion" plagues many areas, creating "disparate and inequitable electricity prices and threats to reliability."

Demand side management and smart grid technologies can diminish the challenges and must be promoted, the letter said. But they will not obviate the need for new capacity to address "other stresses being placed on the modern grid or the need to reach major wind or solar resources."

Stressing another key element, WIRES said transmission planning must be regional "and bottom-up, in order to give adequate consideration to local or sub-regional concerns." It also must be mandatory, independent and comprehensive, the group added.

Despite the open-access reforms required by the Federal Energy Regulatory Commission's Order 890, which included regional planning, the process "is not always open, transparent and participatory."

States should remain "instrumental to transmission siting, with limitations," said WIRES, which went on to suggest complete federalization of the process will not be needed if the process is reformed in two ways.

First, issues regarding the need for particular projects should be resolved by regional planners in conjunction with stakeholder processes and subject to federal oversight, WIRES said. Second there must be federal backstop authority "in all instances involving interstate transmission," it asserted.

"In other words, consideration of regional reliability, economic and environmental interests should be achieved with active state participation in the planning process, but without reliance on serial decision-making in several forums about whether a project is needed and in the public interest," WIRES told Browner.

Finally, regulators must be clear about who pays for transmission. Even though the current regional markets should be "conducive to standard cost-allocation principles," WIRES said, methodologies vary wildly and results can be inefficient and inequitable.

At a minimum, FERC should develop principles that govern all proposed cost allocations, WIRE said. Moreover, Congress should require that such allocations be as broad as possible within a region because of the reliability and economic benefits that generally accrue to the entire region from transmission additions.

"Good rules will generate capital for the grid," WIRES said. The stimulus package made transmission construction funding available to federal utilities, but the government simply cannot underwrite the entire coming expansion.

"Private capital, on the other hand, will respond to effective and fair regulation," WIRES concluded. — **Craig Cano**