

COMPETITIVE MARKETS AND TRANSMISSION: PERFECT TOGETHER

“The New York Times today is absolutely correct to point out that more transmission is needed to reduce congestion, and competitive suppliers support new investment in transmission and generation to foster robust regional markets. The Times also correctly notes that ‘[i]n other areas, utilities control the lines, and independent power producers have complained that the utilities favor their own plants even if their electricity is more expensive.’ EPSA has been working with FERC to address this problem. Transmission should not be confused with the electricity markets themselves. Utilities build and own the transmission, not competitive wholesale suppliers. It’s also important to recognize that congestion is far from exclusive to restructured regions. The Department of Energy reported this August that non-restructured regions such as ‘Phoenix/Tucson’ and ‘Seattle/Portland’ suffer ‘critical congestion.’ The solutions to congestion are to expand transmission capacity, build new generation, or a combination of both, in the least expensive way.”

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Congestion Occurred Before Restructuring, and Occurs Today In Non-Restructured Regions As Well

- “Congestion also occurs in areas where the grid is managed by individual integrated utilities rather than by regional grid operators; however, since transmission, generation and redispatch costs are less visible in these areas, the costs of congestion are not as readily identifiable.” (U.S. Department of Energy, *National Electric Transmission Congestion Study*, August 2006, p. 4, emphasis added)

As *The Times* correctly noted, “Investment in the network has been falling for three decades,” well before restructuring began in the 1990s. It is well documented that transmission has been under-invested in for years nationwide. The utilities who own the lines argue that they did not build out the grid as needs increased because of inadequate rates of return on such investments. Congress and FERC addressed that through recent incentive rate-making. EPSA also argues that many utilities failed to invest in the grid, particularly in non-RTO/non-ISO regions, because to do so would have made it easier for competitive suppliers with lower cost generation to compete against the utility's older, less efficient, costlier generation. *The Times* is correct to address this today.

RTOs/ISOs Have Dual Functions

1. RTOs/ISOs operate the monopoly-owned grid on a non-discriminatory basis.
2. RTOs/ISOs administer the power markets themselves where electricity is bought, sold and traded.

There is nothing about competitive wholesale power markets – as distinguished from the grid operation – that either creates transmission congestion, causes it, or retards investment.

RTOs Provide More Information to Consumers Than in Non-RTO Regions

- “[F]or the areas covered by these organizations [RTOs/ISOs] there is extensive information available in the historical analyses to document past congestion, and extensive data is available for use in fine-tuning grid models to identify future transmission congestion and constraints. There is significantly less publicly available information about transmission congestion and constraints in the Southeast and Florida. Other

than the regional reliability councils' sections of NERC reliability assessments for these areas, no systematic analyses are available to the public concerning transmission flows and congestion within or across utility boundaries." (U.S. Department of Energy, *National Electric Transmission Congestion Study*, August 2006, p. 15, emphasis added)

- "There is little public information about the locations and cost of transmission constraints between utilities or regions (for instance, between Southern Company and the Florida utilities). The unavailability of market and other data or formal regional transmission studies precluded independent assessment of the present study's findings for this region by comparing them with results from other studies." (U.S. Department of Energy, *National Electric Transmission Congestion Study*, August 2006, p. 15, emphasis added)

Congestion Hurts Consumers *and* Competitive Electricity Suppliers

Congestion, in reality, actually has an adverse impact on competitive suppliers, particularly in non-RTO areas, where system operators and reliability coordinators can curtail transactions and related power flows in the name of preventing line overloading. As a result, consumers are the ultimate victims since usually those cut transactions would have provided lower cost power. When competitive suppliers are deprived of transmission, customers lose more affordable power and the competitive supplier loses money. FERC has the opportunity and obligation to address this through its pending transmission reform proceedings (order 888).

RTOs Have Been Able to Significantly Reduce Congestion Costs

[A November 2005 report from the ISO/RTO Council](#) highlighted reduced congestion costs in RTOs. For example, projects like "the Path 26 upgrade, the South of Lugo upgrade serving the Los Angeles Basin, and the Miguel-Mission Line near San Diego – have helped lower costs for customers by delivering more low-cost electricity to southern California customers, reducing congestion costs by more than \$170 million in the first eight months of 2005."

Other Examples Noted in the Report:

- "In 2004, PJM began using new software that uses advanced mathematical techniques for unit commitment, to optimize power plant scheduling, and to be sure that the most efficient units are available when needed for generation or reserves. The new system has produced estimated savings to customers of \$56 million per year."
- "ERCOT created and implemented remedial action plans and special protection schemes to protect reliability. These schemes have reduced congestion costs in the ERCOT market by over \$70 million per year."
- "Working through the Southwest Transmission Expansion Planning (STEP) sub-regional planning group, the California ISO and neighboring control areas developed a plan to improve the flow of electricity across the southwest. More than 6,000 MW in new generation has been built in the region in recent years, much of which is now shipping power into California."
- "The Midwest ISO and PJM signed a joint operating agreement in 2004 that established procedures to improve coordination of regional congestion management and data exchange, beginning in late 2004. Coordination of the market-to-market power flows began on April 1, 2005. The two RTOs will expand coordinated operations through enhancements to the joint and common market, spanning 239,000 MW of load and 282,240 MW of generation. Coordinated operations and constraint management will ensure that wholesale electric purchasers in both markets receive the lowest cost generation available from resources in both markets on a highly reliable system."