

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Transmission Barriers to Entry

Docket No. AD08-13-000

**STATEMENT OF PAUL D. MCCOY
ON BEHALF OF
TRANS-ELECT DEVELOPMENT COMPANY**

Good afternoon, Mr. Chairman and Commissioners. My name is Paul McCoy. I am President of Trans-Elect Development Company (Trans-Elect). Trans-Elect is a developer of merchant transmission projects throughout the country, and is especially active in the West where the potential for clean energy is enormous. I appreciate being invited to participate in this meeting. Its importance should not go unnoticed because, as we in this room know, electric transmission will be a key component of fulfilling our national ambition for renewable energy, energy independence, and addressing climate change. I believe that non-utility or “merchant” transmission development will play a significant role in these matters and your attention to the barriers it faces is very welcome.

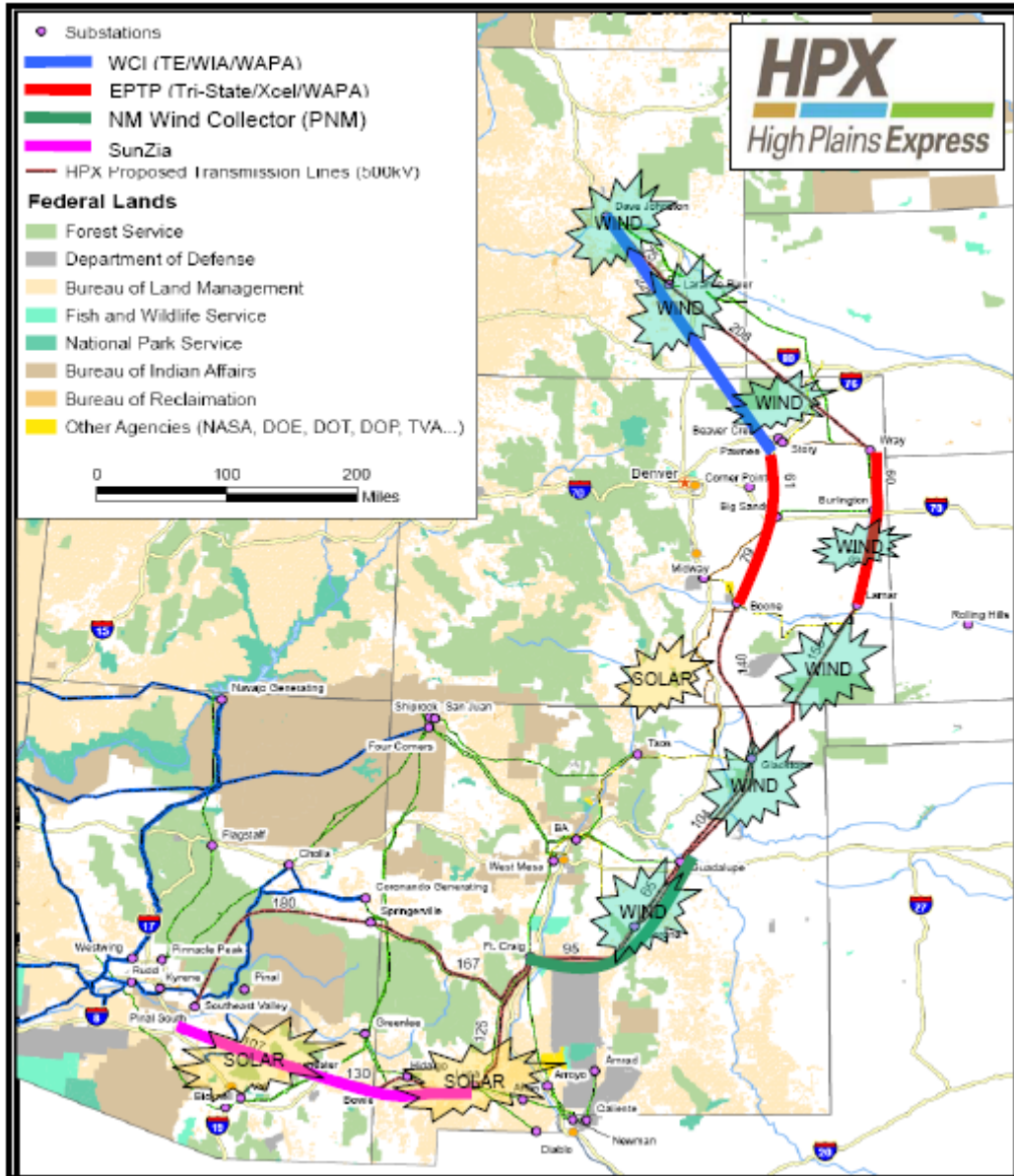
I also serve as Vice-President of WIRES (Working group for Investment in Reliable & Economic electric Systems), a national non-profit association of transmission providers, developers, and customers dedicated to promoting transmission investment. I mention that without elaboration because I am distributing today, as part of my submittal to you, a study just published by WIRES which surveys how industry and regulators are currently addressing a range of critical commercial, regulatory, and operational obstacles to the integration of location-constrained clean energy resources, such as wind and solar energy, into the grid. WIRES or I will be happy to discuss the study with you once you have had a chance to digest it. This

morning, however, I want to focus on issues specific to Trans-Elect Development and the merchant transmission sector generally.

I am here today principally to discuss Trans-Elect's experience with its two projects in the West – the Wyoming Colorado Intertie (WCI) and High Plains Express (HPX).

The West presents a special challenge for transmission development. It is blessed with abundant high-quality renewable resources, generally located in remote areas, hundreds of miles from load centers. These resources thus require the construction of long distance backbone projects, sometimes crossing multiple control areas and states. However, the West, other than California, does not have RTOs/ISOs to rationalize the planning, construction, and cost allocation of long-distance backbone projects. Not surprisingly, utilities (in the West and elsewhere) are more focused on transmission to serve their native load customers rather than on extending their transmission systems to serve regional or export markets. I recognize that Western policymakers are working hard to lend coherence to grid expansion. They recognize the challenges. But the diversity of transmission ownership, regulatory cultures, resource bases, and operational control -- WECC alone has 23 control areas in 11 states – compounds the difficulties of bridging the great distances between energy resources and energy consumers in the West.

The free market has emerged to help fill this vacuum. Merchant transmission projects have been proposed to move renewables from remote areas to major load centers. While most of these are currently focused on wind, an increasing number would also tap solar, geothermal, or biomass resources. Many of these are designed to provide market access for high-quality renewable resources within the Rocky Mountain states. Trans-Elect has two multi-state projects under development (see figure): WCI and HPX.



- Wyoming-Colorado Intertie (WCI): A project developed by Trans-Elect in partnership with the Wyoming Infrastructure Authority and Western Area Power Administration. It recently completed an Open Season auction for 70% of the 180 mile long, 345 kV line's capacity in which all of the capacity was subscribed by wind project developers.

- High Plains Express (HPX): A public/private partnership¹ consisting of seven utilities, three state transmission authorities, and Trans-Elect to develop a “backbone” 500 kV system connecting the states of Arizona, New Mexico, Colorado, and Wyoming. This project under development by this unprecedented collaboration would improve regional reliability, tap renewable resources along the route, and provide benefits to each HPX state.

The development of merchant projects is uniquely market-driven. A shipper will only sign a long term contract on a merchant transmission project if it provides a cost-effective option for delivering power to load, regardless of whether that shipper is a generator or a utility. The merchant transmission developer will not be able to obtain financing for the project, and thus build the project, unless it has a sufficient number of long term contracts from creditworthy shippers.

This model ensures that only economically viable projects are built. It also ensures optimum allocation of costs. Expansion shippers contracting for capacity on the merchant transmission project, pay for the costs of the project. Investors and the project developer, not historical ratepayers, bear the risk of permitting and shipper default. It therefore goes without saying that this exposure to financial risk makes regulatory certainty and the need for flexible business arrangements extremely important to the merchant developer, especially to the extent that the sector is willing and able to step up to invest in major long-line facilities that have greater potential impacts on the regional network and real public policy significance.

For that reason, I strongly suggest that the Commission seek ways to adjust its approaches in recognition of this kind of inherent risk. To illustrate, the WCI project will take

¹ Xcel Energy, Salt River Project, Public Service of New Mexico, Tri-State G&T, Black Hills Power, Western Area Power Administration, Colorado Springs Utilities, Wyoming Infrastructure Authority, New Mexico Renewable Energy Transmission Authority, Colorado Clean Energy Development Authority, and Trans-Elect.

approximately seven years from inception to commercial operation. It will have to go through multiple jurisdictions for permitting in Wyoming and Colorado. During that time, it will have to bear all the risks associated with construction, land acquisition, and financing. At the same time, the wind energy generators who are WCI's customers are able to develop their projects over as short as a three-year period. This timing difference represents risk to the transmission developer; it will necessarily need to begin its work and expenditures substantially in advance of actual generation project construction. If this timeline is not met for reasons beyond its control, this also represents risk to the renewable resource developer.

One way to help mitigate the development risk is to change the way a project's capacity is allocated, consistent with the Commission's policy of avoiding undue discrimination. Merchant transmission developers should be allowed to contract with anchor shippers for a significant portion of the project prior to holding an open season. Much of the risk of WCI's development could have been lessened and the project timetable shortened were such an option available to Trans-Elect in the development of WCI. Conducting a FERC-compliant open season currently is a very expensive undertaking, the cost of which is borne by the developer. It is a cost that also occurs relatively early in the overall "life cycle" of the project, generally about two years or more prior to the initiation of construction, at least in the western U.S. When legal and consultant costs are added to the costs of open season design and execution they can exceed \$750,000 for the auction process. Of course, this "carried cost" must itself be financed, usually by the equity partner of the project – a cost that is ultimately reflected in the rates borne by shippers.

Conversely, the ability to contract early in the project with a shipper, an anchor shipper, via bi-lateral negotiation would significantly reduce risk. Our recommendation to you today is

that you specifically allow such a process to occur for merchant electric transmission development.

An example of how this process would work might be as follows. The transmission line developer secures a binding commitment from shipper for a material portion of the capacity, say 50%, prior to an open season. The binding commitment includes a locked-in price for the service. We would then offer, through an open season, the remainder of the capacity at terms, conditions, and price that clear the rest of the capacity at whatever price the market will bear.

Being allowed to negotiate with an initial user of a project's capacity significantly lowers risk, reduces costs, and accelerates project execution. This advantage becomes more pronounced as project size increases. Some of the western "backbone" transmission lines that have been proposed are examples of this including the potential merchant components of the High Plains Express project.

In the limited time we have today, we suggest that for a truly merchant project, the adoption of the suggestion we are making would be the single most important thing that the Commission could do to further the advancement of merchant transmission projects.

I am pleased that this Commission so clearly sees the need for infrastructure investment from many sources. Given the risk profile of merchant developers, however, it should also undertake to ensure the merchant development is not always relegated to a market niche. In addition to building discrete projects to interconnect an isolated resource, merchant transmission will be capable of providing capital and expertise for development of extensive network projects, if it is allowed to enter into capacity contracts that tend to accelerate and make more certain the development of those facilities. This will serve the public's growing interest in a clean-energy economy.

Thank you for your time today.