Transmission: A key market enabler

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Key Messages

- Restructuring and competition have delivered significant customer benefits
- Significant roadblocks are prohibiting realization of the full benefits
- Key obstacle - lack of recognition that transmission is a market facilitator
- Several policy changes are needed
Benefits from Re-structuring are Undermined by Insufficient Transmission Investment

- Insufficient transmission preserves protected power markets, diminishes competition, and threatens reliability

- Such conditions...
  - Increase congestion
  - Create opportunities for market power
  - Restrict customer choice
  - Increase need for regulated intervention in the market to avoid reliability problems
Increasing Congestion

Source: Congestion Costs from PJM State of the Market; 2004 State of the Market Report, NYISO.

The PJM and NYISO congestion values are the total congestion revenues (rents) collected.
PJM has developed an unhedgeable congestion metric for use in economic planning. NY is in the process of doing the same.
Inadequate Transmission Produces Market Problems

- Transmission constraints preserve protected markets and create opportunity for exercise of market power
- This prompts need for mitigation which, in turn, prevents some generators from recovering costs
- Retirements in constrained areas have become a real concern in Northeast RTOs
  - Region must enter into RMR contracts to preserve reliability
  - Regulated generation is bad for the market
  - NYPSC has established a proceeding to explore policies/requirements governing gen retirements
- Inability to recover capital costs leads to dependence on capacity market designs that are often very expensive for customers
The Roadblocks to Adequate Transmission

- Planning and pricing policies that view transmission as a market product vs. market-enabling infrastructure
  - Ignore the “Commons” nature of transmission
  - Ignore the “Lumpiness” of transmission
  - Lead to reliance on voluntary participant funding – has not delivered in practice
  - Difficulty in identifying specific beneficiaries
  - Merchant transmission plays only a niche role
- Fragmented nature of transmission ownership/operation
- Lack of independence of transmission from generation
- Lack of adequate financial incentives
- State vs. federal jurisdictional issues
  - Siting
  - Cost recovery
Transmission – The Path to Successful Markets

- Enables trade
- Facilitates fuel diversity, including renewables
- Reduces load pockets
- Greater customer choice
- Less need for regulatory intervention into markets
- Leads to lower and more stable overall electricity prices
Proposed Policy Remedies

- Adoption of robust regional transmission planning processes
- Fair and workable cost allocation processes that recognize transmission as market enabler
- Adoption of incentives, such as ROE adders, to induce adequate investment
- Clear and prompt federal and state cost recovery
- Encouragement of ITC development through tax incentives, revised functional delegations
Regional Transmission Planning

◆ A robust planning process should:
  ◆ Identify reliability *and* economic needs of the system
  ◆ Contain well-defined timelines for approval of cost-effective transmission remedies to identified needs
  ◆ Fully value the benefits of transmission including reduced market power and overall electricity prices, environmental improvements, and facilitating energy policy
Upfront Cost Allocation Mechanism

- Should be clear, well-defined, repeatable
- Avoids case-by-case allocation that invites endless debate and litigation
- Cost should be spread broadly to reflect:
  - Transmission’s widespread benefits
  - That transmission’s beneficiaries change over time
- New England is a good example – uses postage stamp allocation for regional upgrades
Questions?

Find Transmission: The Critical Link at:
www.nationalgridus.com/transmission_the_critical_link/