Transmission Project Scorecard

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The purpose of this Quarterly *ESAI Transmission Watch* report is to provide ESAI clients with ongoing assessments of the consequences of anticipated AC transmission investments.

ESAI also reviews DC transmission projects in its Quarterly *Capacity Watch* reports.

These Quarterly Reports are designed as part of a comprehensive package of professional assessments of the Northeastern electricity markets. As such, this report should be used in conjunction with the following regular ESAI assessments:

- **ESAI Northeast Energy Watch Monthly:**
  Reviews 6-month outlook for electricity, natural gas, and oil markets in the three Northeastern ISOs

- **ESAI Northeast Energy Watch Quarterly:**
  Reviews 10-year outlook for electricity, natural gas, and oil markets in the three Northeastern ISOs

- **ESAI Capacity Watch Quarterly:**
  Reviews status of generation and DC transmission projects

- **ESAI Congestion Watch Monthly:**
  Report that accompanies client-specific nodal price forecasts designed as an input to the FTR-auction decision-making process
Note: The map above is based on ISO information and on ESAI’s own proprietary analysis of transmission opportunities. It is representative of the transmission and congestion analytics that go into ESAI’s Northeast Energy Market Watch, Northeast Power Quarterly, Capacity Watch, and Congestion Watch reports.
The Slippery Slope: ISOs Mandate Economic Transmission Projects

There is very little transmission investment taking place today because there is very little investment taking place today. Had the “Enron model” not imploded, a significant number of merchant transmission projects would have been financed. But when that model did implode, the baby (transmission investment) was thrown out with the bathwater (too many ill-placed new generation projects).

So what happens next?

The Pace of the Pools versus the Pace of the Needy

It is clear by now that ISOs and RTOs will be developing Regional Transmission Expansion Plans (RTEPs) and that these Plans will identify both critical/reliability and “economic” transmission projects. The line between these categories will not always (or even often) be clear. Given the slow pace of merchant investment, it is also clear that those who need transmission built will do all they can to place their project in the must-build category, and ask the ISO/RTO to socialize the cost across the control area.

The ISO/RTO will proceed down this socialized path carefully, because it knows that the restructuring process has created an instrument — locational marginal pricing (LMP) — that theoretically serves as a beacon for merchant investment. Thus, every proposed major socialized transmission investment will have to run the gauntlet of stakeholders and interest groups that oppose socialized investments.

The stakeholders in the RTO markets have been corralled into a variety of committees that will debate at length and with passion which projects should be socialized, or even which parts of projects should be socialized. It will take months if not years to develop the studies, have the meetings, kick the recommendations up the chain of committee command to a final ISO/RTO Board decision. At which point the losers in the decision are likely to go to FERC, who in turn must show a due diligence and respect for both sides of the argument. We suspect FERC will not be ideological, but rather quite pragmatic — it wants to see transmission built by anybody. Whatever it decides, the losers are sure to go to court, and we shall go through that process.

Let’s call this the pace of the pools. Meanwhile, small things that can be done to increase transfer capacity will be done. In some places, those will have quite dramatic effects and put off the “day of reckoning” for years. In other places, these will have only modest effects, which brings us to the pace of the needy.

The pace of the needy describes those projects where either a load-serving entity or a source of power is sufficiently desperate to take substantial financial responsibility for a project. We have seen a number of examples: Path 15 in California, ConEd’s RFP for capacity in New York City (which allowed transmission solutions to be proposed, although they were not chosen), and the
LIPA RFP for capacity (which also allows for transmission proposals), which is to be determined this fall. PJM, meanwhile, is also trying to kick-start some small “merchant” projects in Delmarva.

In these cases, the need drives principals to accelerate the pace of the pools. Where things will get particularly interesting is where companies in need initially throw themselves at the mercy of the pace of the pool. We see something like this shaping up in Connecticut, where a $600 million transmission project has been identified by the New England ISO as a hybrid reliability and economy project. The load-serving entities, as well as the government of Connecticut, would certainly like to see this cost socialized across New England.

It is fascinating to contemplate how the socialization of this project’s costs will play in New England. On one hand, one can imagine other load-serving entities in urban markets in favor, looking ahead to the day that they will need similar treatment. On the other hand, one can imagine the regulators in uncongested areas in opposition: what, they may ask, is the point of LMP if they wind up “subsidizing” urban areas anyway? And why should higher electric costs be socialized and not higher oil costs, or, for that matter, higher housing and cereal costs??

It is not at all clear how this will play out. One thing that does seem clear to us, however, is that it will take months and years to play out. And thus there is a small window of advantage to those who are willing to take an initiative.

“Do not go gentle into that good night…”

Advocates of market forces in electricity are understandably discouraged about transmission. But the fact of the matter is that the era where pure merchant transmission was a possibility has come and gone, at least for the foreseeable future. What is here and now, however, is not the same as the old days, when utilities made transmission decisions unilaterally. The RTOs are here to stay, LMP pricing signals will become more robust with the passage of time, and the pace of the pool will reveal itself for the stately and measured thing that it will be.

So where the pace of the needy is faster than the pace of the pool, transmission development can take place in a way that is new by the standards of the early 1990s, albeit not as wild and racy as some had expected in the late 1990s.

The minimum condition of a successful, non-pool transmission development project, however, is (minimally) strong support from and (preferably) partnership with the principal parties on one or the other side of the transmission line. It would be even better if the project team had both the source and sink principals behind it, along with a skillful development team.

We expect some partnerships like this to emerge in the next few years, and to promote a small number of fairly large projects. They will try to socialize as many costs as they can, but they should also try to avoid letting the socialization debate (which after all dictates the pace of the pool) postpone the project to such an extent that a need become a crisis.

When Dylan Thomas told us not to go gentle into that good night, he was talking about old age. We’re suggesting that, while the development of transmission by ISOs/RTOs is a kind of death for the idea of merchant transmission, those who liked the new paradigm should also not go gentle into the good night of central planning and re-regulation. There is room in the world, we think, for creative transmission development. It will just take a singular combination of imagination and pluck to figure it out.