

Drawing the Line for Transmission Investment

A Framework for Coexistence

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Can Merchant Co-Exist?

- ◆ Well functioning markets provide market incentives that drive merchant investment
- ◆ Merchant financing is not based on regulated rates (rate base)
- ◆ May need regulatory backstop for cases of market failure
- ◆ Absent meaningful and transparent pricing, merchant investment is not practical, since there is no way to know where transmission is cost/beneficial

Transmission Investment Model

Merchant

- ◆ Voluntary
- ◆ Non-regulated return

Hybrid

- ◆ Voluntary
- ◆ Regulated return

Regulated

- ◆ Mandatory
- ◆ Regulated return

*Merchant and Regulated investments are appropriate
Hybrid is more difficult in a market paradigm*

Supporting the Merchant Business Model

- ◆ Imposing regulated obligations on merchant participants thwarts the market-driven business model
 - Mandated, regulated return obligations are different from voluntary, market-driven projects
 - Rules must preserve merchant property rights
- ◆ Identify the default transmission builder before formulating an RTO
 - It is not the merchant

Supportive Infrastructure

- ◆ An intrusive/overactive central planning coordinator can have a chilling effect on merchant investment
 - Integrated Resource Planning with competitive solicitations for identified problems will preempt market based solutions
 - However, a functioning market is required
- ◆ Merchant generation began on this path over a decade ago – we are still “unwinding”
- ◆ Competition for projects is second best to competition for investment

Property Rights

- ◆ New investment cannot be allowed to erode the property rights of existing investment or infrastructure
 - Financial - Need to assure that new incremental investment does not reduce the transfer capability and lower the existing quantity of rights without compensation
 - Physical - Need to assure that physical plant is adequately compensated

PJM Decision

- ◆ PJM purports to identify “unhedgable” congestion, or congestion for which there is no available financial rights for delivery price certainty
- ◆ Is the role of the ISO to insist on upgrades which help some market participants while harming others?
- ◆ Have we conceded before we begin?

Stop the Erosion

Insistence that the regulated backstop invade the competitive arena is problematic:

- ◆ It perpetuates the myth that transmission is not a competitive entity capturing the same economic rents driving generation and demand-side solutions
- ◆ It slows the paradigm shift that transmission is a “first-instance” competitive investment – not just a backstop
- ◆ This could slow the technology and innovation breakthroughs of market-driven thinking