

# **Transmission: A key market enabler**

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# Key Messages

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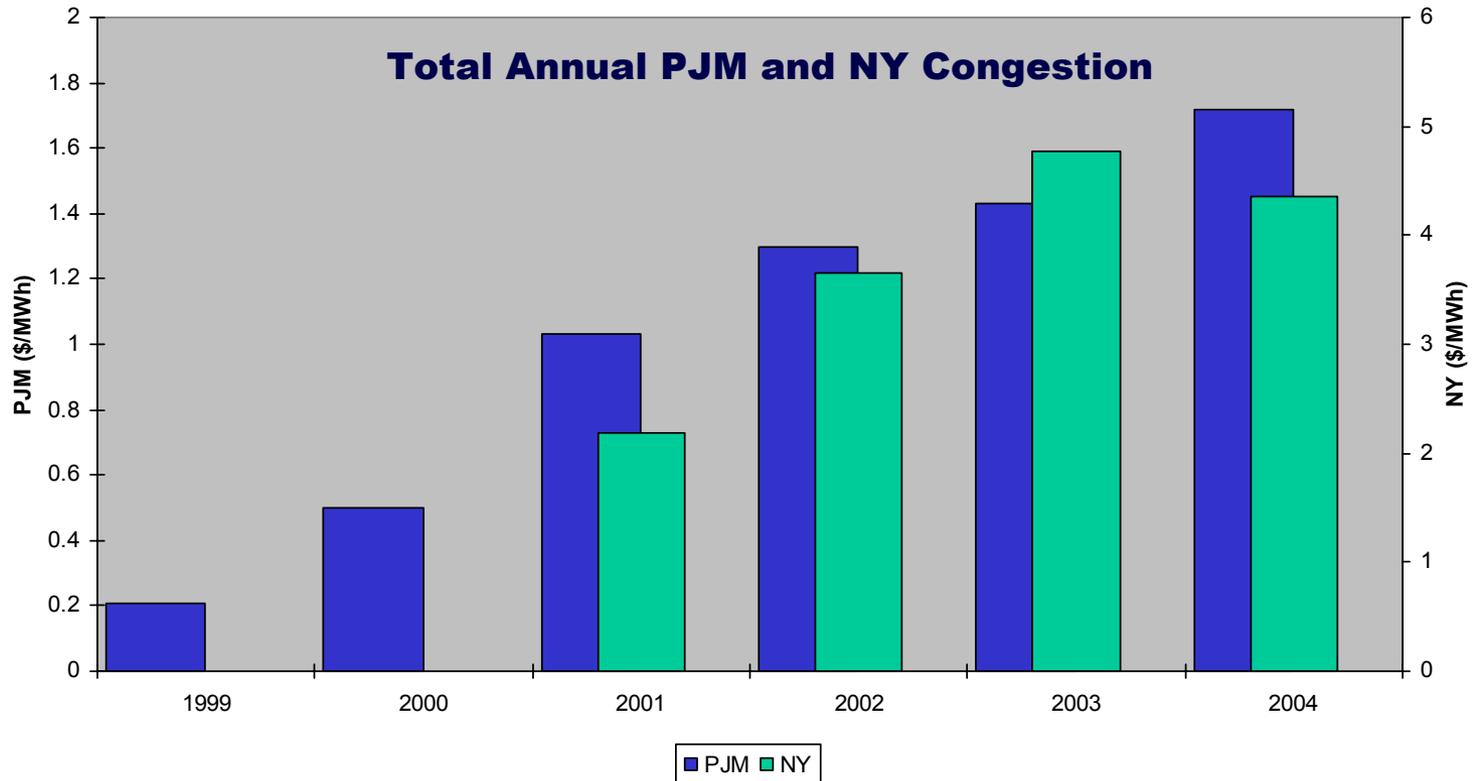
- ◆ **Restructuring and competition have delivered significant customer benefits**
- ◆ **Significant roadblocks are prohibiting realization of the full benefits**
- ◆ **Key obstacle - lack of recognition that transmission is a market facilitator**
- ◆ **Several policy changes are needed**

# **Benefits from Re-structuring are Undermined by Insufficient Transmission Investment**

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- ◆ **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

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- ◆ **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

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- ◆ **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

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- ◆ 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

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- ◆ **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

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- ◆ **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

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- ◆ **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?

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Find [Transmission: The Critical Link](http://www.nationalgridus.com/transmission_the_critical_link/) at:  
[www.nationalgridus.com/transmission\\_the\\_critical\\_link/](http://www.nationalgridus.com/transmission_the_critical_link/)

