

Position Paper on proposed 345kV Transmission line for Southwest Connecticut

Joe Petrowski

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Approving the proposed 345kV line at this point is bad public policy, a poor financial decision, and detrimental to the long term development of a vibrant energy sector for the state of Connecticut.

Bad Public Policy

The proposed line is being considered under a process that was designed in the era of regulation. Yet we are pushing forward with deregulation and claim to embrace market solutions to our energy needs. Proponents of the line argue that the line is a “twenty year” solution. Even if we were to ignore the sheer folly of pretending to understand the market needs and solutions for such a time period, we should not commit the state to such a rigid and static solution when we are just at the beginning of market based designs and new technologies that will alter how we use energy. There can be only two outcomes to the commitment of this major investment in over capacity and that is either obsolescence that will be the economic burden of the ratepayers of New England and Southwest Connecticut for that “twenty-years” or the premature eradication of industries and alternate solutions such as load shedding, distributive generation, and conservation.

Although we choose to unbundle generation from transmission, distribution, and retail development to various degrees and timetables we did not change the basic nature of the electric market by such legislation. Electricity is a vertically integrated market. At one point in time we could rest assure that we would look at resource permitting in an integrated fashion in a vertical, geographic, and temporal fashion. The incumbent utility as a regulated monopoly had every incentive to propose the best solution that balanced cost, reliability, and public interest. The utility could be indifferent to a solution selection. No more. The incumbent utility is a market player seeking to maximize profit with only one real solution available to present transmission. Certainly we can not hold the utility at fault in the desire to maximize profit or to be an advocate for transmission but for anyone crafting public policy to rely on “expert” testimony from a utility at risk in the decision process is placing a belief in the honor system that is less than prudent.

We have seen that this Bethel to Norwalk project is only a partial phase. Yet we continue to live with the fiction that we can analyze its viability without consideration of the multiple impacts that will be generated by associated phases. We would never allow this approach with our roads, housing developments, or industrial projects. We must not allow this with our energy development.

While New England ISO is independent and has done an outstanding job of maintaining the reliability and integrity of the New England Electrical Network, they are not

unbiased. Not surprisingly most of the ISO members have been drawn from the utility industry and most from the transmission sector. The responsibility of the ISO New England is reliability. Power cost, environmental concern, market development, and a host of our issues are either outside the concern of ISO-NE or at the very least subordinate to reliability. It is little wonder that they would embrace a solution that added capacity far and above what would be needed under the most extreme forecasts of future demand. ISO-NE has an important role in energy policy development but theirs is but one role in many and by no means the final word.

Finally, the affected towns have recognized that SW Connecticut is relatively congested (although there have been no outages because of a lack of resources in the last thirty years). They have been willing to consider alternatives such as two 115kV lines yet the above ground 345kV proponents continue to push for this solution although there is no question that the 115kV lines would be cheaper and would provide SW Connecticut with a comfortable capacity cushion equal to other parts of New England. What makes the 345kV so sacrosanct in some eyes? Distorted economics.

A Poor Financial Decision

Under current Nepoch rules the cost of this line would be socialized by all transmission users throughout New England assuming such costs were “normal” and conformed to acceptable practices. There is therefore some question whether the higher costs inherent in a buried line would qualify for such a favorable treatment. Putting aside whether we should have the same aesthetic and environmental standards across a rural area as an urban area, such treatment biases the proposal. And with a guaranteed rate of return equal to the utilities allowable rate of return every consideration will be given to the largest possible project approved under current reimbursement standards. This is an above ground 345kV line. This is the desired solution by its proponents not because it is the cheapest solution, the “best” solution, or even the most reliable solution. It is the solution that maximizes the return of the incumbent transmission company. We must not endorse a process that encourages the addition of surplus capacity when it is the rate payers and not the investor who is at risk for the financial waste that will be inevitably assumed.

The financial analysis of the “need” also needs closer examination. ISO-NE spent just over \$6 million last summer for emergency generation in SW Connecticut that was not utilized despite the hotter than normal summer. Conceding that there remains some need for capacity additions despite no forced outages, we are told that this “shortfall” can be better addressed if the 345kV line were installed. Yet the amortization and depreciation of this project along with a most conservative operational overhead would be at least a 50% higher expense than that \$6 million on an annual basis. Would any free market business commit fixed capital for twenty years on an old technology to replace a cheaper solution for a non-existent market? They would if the return was guaranteed by someone else assuming the downside risk and they would do so enthusiastically if the upside would accrue to the proponents. They would do so quickly if the rules were to be altered as is being considered in Standard Market Design, Local Marginal Pricing, Load

Shedding, and the status of merchant transmission all changes that are right in front of us. The urgency in approving this project is investor driven not consumer driven. The public interest and the financial interest weigh heavily toward further deliberation. In summation if this line were subject to the rigors of an open and fair market it would not be proposed or built. If it were to be considered two years from now after many of the above design changes are implemented it is highly probable that the conclusions on need and solution would be radically different. That is reason enough to wait.

Long Term Market Development

The single biggest contribution the task force and working group can make towards a better energy future is to endorse and recommend an energy infrastructure approval process that is balanced and unbiased. I am pleased with the work product towards this end that my colleagues and I have begun to craft. Approving this line at this time in this fashion is the antithesis of what we desire to achieve. Any one of approving an additional 115kV above ground line, embracing a more robust load shedding and conservation programs, removing the barriers to and incentivating the use of distributive generation and even relying on another round of stand-by generation this summer will alleviate any potential risk of a forced outage.

The affected and interested parties need to sit down together possibly with assistance of mediator and craft out an interim solution that will not adversely alter the market or commit us to a solution or technology that is irreversible. Clearly the above ground 345kV is not acceptable in its present format.

The credibility shortfall is greater in SW Connecticut than the capacity shortfall. One year from now we will know more about the problem, the solution, FERC policy, inter-regional issues, new program impacts, and our ability to design a process of review that fits with the realities of the deregulated and unbundled energy market. The rush to a twenty year solution is an oxymoron we cannot afford to embrace.