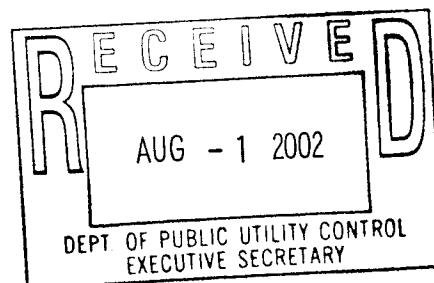


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From: rita bowlby
Sent: Thursday, July 25, 2002 10:05 AM
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Subject: Position Paper
As requested.



STATE OF CONNECTICUT

TASK FORCE INVESTIGATION OF ALL PROPOSALS FOR GAS OR ELECTRIC TRANSMISSION PROJECTS DPUC DOCKET NO. 02-04-23

PRELIMINARY POSITION PAPER OF THE CROSS-SOUND CABLE COMPANY, LLC

Cross-Sound Cable Company, LLC (“CSC LLC”) is a joint venture between TransÉnergie U.S. Ltd. (“TEUS”), the U.S.-based transmission project development subsidiary of Hydro-Québec, and United Capital Investments, Inc., an unregulated subsidiary of UIL Holdings Corporation, the parent company of The United Illuminating Company.

In January 2002, the Connecticut Siting Council, by unanimous decision, granted to CSC LLC a Certificate of Environmental Compatibility and Public Need for the construction, operation and maintenance of the Cross Sound Cable project, a 330-megawatt, high-voltage direct current (“HVDC”) submarine electric transmission cable system between New Haven, Connecticut and Brookhaven, New York. The Cross Sound Cable will transfer energy both to and from Connecticut and will be available to supply energy to Connecticut in the event of an emergency.

Additional transmission projects such as the Cross Sound Cable provide significant benefits to Connecticut and the region. Increasing the regional electric transmission infrastructure improves electric grid reliability, allows for greater regional sharing of resources to keep the lights on, and helps ensure that consumers have electricity when they need it.

Our position with respect to this investigation is simple: gas and electric transmission infrastructure projects are vital to Connecticut’s and the region’s economy, and the review of the siting of these projects needs to incorporate a broader perspective so that the varied benefits of these projects can be fully aired and assessed by the relevant government agencies and the general public. It is important to note that the existing review process is appropriately and judiciously meeting this objective of a broader perspective. Agencies such as the Connecticut Siting Council perform a balancing of public benefit against environmental impact in reviewing these projects, as dictated by the state’s existing energy facility siting laws. CSC LLC believes that the Connecticut Siting Council and other state and federal agencies having the appropriate expertise and jurisdiction over such facilities should be allowed to continue to review, and approve, modify, or reject such facilities on a case by case basis.

CSC LLC would like to share with the Task Force its expertise in designing, financing, constructing, owning and operating high technology electric transmission projects. We believe it is important for the Task Force to understand the changing nature of the electric transmission industry. These changes are both technological and regulatory in nature, and have the net effect of overturning the conventional wisdom regarding the transmission industry.

To that end, we wish to share with the Task Force our Top Three Myths regarding investment in new transmission:

1. Transmission is and will remain a natural monopoly

Frequently we hear that transmission has the economic characteristics of a natural monopoly and that only certain, privileged entities should be allowed to invest in transmission. In fact, as well will elaborate below, the economic characteristics that have traditionally characterized transmission investments are being largely overturned by rapid technological change. While we do not advocate (nor do we think is appropriate) to “de-regulate” the existing transmission system, we strongly believe that NEW transmission investments should not be subject to a monopoly framework. In many ways, the transmission industry today is at the same place where the electricity generation or the telecommunications industries were at the dawn of their industry restructuring.

‘Free riders’ restrict transmission investment

The ‘Free Riders’ problem occurs when the costs of a particular investment are not fully assigned to the beneficiaries of such investment. In the past, large transmission investments have suffered from this characteristic, resulting in certain users benefiting from particular investments without bearing the full cost of that investment. The new controllable transmission technologies have remedied this problem – only the users of the facilities pay the facilities’ cost. We should note that for Cross Sound Cable, we have a “free rider” issue – but it is a positive one, as Connecticut electric users benefit from the benefits provided by the project without having to bear any of the project’s costs.

Economies of scale (lumpiness of investment) restrict transmission investment

Similar to the ‘Free Rider’ issue, many argue that transmission investments are ‘lumpy’ in nature, and that the per unit cost goes down dramatically the larger the facility. Again, technology has undermined this assumption. New transmission technologies are highly modular and generally provide blocks of capacity in more ‘market-friendly’ sizes. Not only does this reduce total costs, but it also provides more options and flexibility in determining the viability of projects.

2. Need eminent domain and other state police powers to site transmission

Here is perhaps the most attractive benefit provided by new transmission technologies. Similar to fiber optic cables, new transmission cables are smaller and easier to place underground in existing rights-of-way (railroads, highways, pipelines, etc.,). Furthermore, new point source and converter devices allow transmission capacity to be increased in existing substations. CSC LLC’s own experience demonstrates that it is possible to build new transmission in a reasonable period of time without the use of eminent domain. Importantly, the cost of underground transmission has fallen precipitously. While long ago underground facilities may have cost more than ten times the cost of traditional overhead transmission, today this is no longer the case. As an example, CSC LLC’s affiliates are presently commissioning the largest fully underground land-based transmission facility in the world – Murraylink in Australia, at approximately 110 miles, using existing rights-of-way for all of the route. The total materials

and installation cost of Murraylink remains higher than that for a conventional overhead transmission facility – but only about two times more, and (more importantly) the project is now close to completion after about three years of planning and development. It would have been extremely difficult to construct a conventional overhead transmission project in this time frame – and the permitting cost would have likely negated much of the savings from the use of less expensive conventional overhead transmission technologies.

3. Transmission takes too long to build – need a central planning process to “pre-approve” projects

We often hear from self-appointed ‘transmission professionals’ that it is too complex and difficult to build transmission. To improve on this fact, it is argued that only incumbent monopoly entities should be qualified to build transmission, and that we need to implement a highly centralized, regional transmission planning process to get things done. While such a process may have some merit in identifying problem areas in the grid, the fact of the matter is that in our experience our transmission projects take about three years to go from concept to energization, and we are working hard to shorten that period. Further, the experience with centrally planned generation plants should serve as a cautionary note to those who wish to implement a similar system for transmission. Customers across the country have been and will continue to pay for the ‘miscalculations’ of past electric system planners.

Similarly, many incumbent utilities argue for the creation of monopoly ‘independent’ transmission companies (ITCs) that would plan and build all transmission they deem would be necessary in the region. We do not believe that this exclusive monopoly will result in the lowest cost for consumers. Other entities must have an opportunity to compete to provide solutions to customers, whether they be generation, transmission, demand-side, or other resources. It is only in this manner that we can assure that customers will bear the lowest cost for needed investments.

The fact remains that advances in technology can overcome each of these myths. The best example of this overturning of conventional wisdom is the roughly \$600 million in projects being advanced by CSC LLC’s parent, TEUS and its affiliates, in North America and Australia:

<u>North America</u>		
Cross Sound Cable	330 MW, 40 km subsea DC	In final stages of construction
Lake Erie Link	325-975 MW, 120 km DC	Undergoing permitting
Harbor Cable	330-660 MW u/g & subsea	Undergoing permitting
 <u>Australia</u>		
Directlink	180 MW, 65 km u/g DC	In operation since Dec 2000
Murraylink	220 MW, 180 km u/g DC	In final stages of construction
Southernlink	150 MW existing lines upgrade	Undergoing permitting

In total, these projects represent a minimum of 1500 megawatts of transmission capacity, with almost 1000 megawatts in North America.

CSC LLC welcomes the opportunity to participate in this important endeavor. We look forward to working with other members and the public in general to advance the understanding of the changes taking place in the transmission industry and the many unrealized benefits the industry can provide to consumers and to society as a whole, both in Connecticut as well as the entire region.