July 21, 2011

U.S., Seeking to Reshape Electric Grid, Adopts a Power Line Rule

By MATTHEW L. WALD

WASHINGTON — Federal regulators laid down principles on Thursday for planning and paying for new power lines, part of a long-term policy effort to help the nation's electricity grid grow enough to meet the demands of renewable energy and a competitive electricity market.

The rule, which has been in the works for several years, is intended to push the organizations that manage the grid into cooperating with one another, so that developers can build power lines across several states and multiple electrical jurisdictions.

Such cross-jurisdictional transmission lines are becoming more important as states seek to reach their goals of integrating large amounts of wind and solar power, generally available in remote deserts and mountaintops, into the energy mix.

While generators of power, including renewable energy advocates, generally praised the rule, others were wary and said it could impose big costs on people who get no benefits.

But it has long been clear to grid experts that the existing transmission lines will not allow for a free market in electricity in which generators can compete across vast distances to supply customers, or for meeting state renewable energy goals. Existing rules make it very difficult for a company seeking to build new transmission lines to establish how it will recoup its costs.

The new rule, passed unanimously on Thursday by the Federal Energy Regulatory Commission, does not specify what the formula should be for allocating costs, or precisely how new lines should be planned. But it does lay out general guidelines, including the notion that the costs should be borne by those who benefit.

The commission also issued an implicit threat: if grid organizations do not enable the construction of badly needed new transmission lines, federal regulators will do it for them.

Jon Wellinghoff, the chairman of the commission, cited a prediction that until 2019, 60 percent of new generating capacity will be wind and sun, often distant from population centers.

"Strengthening and expanding the system for reliable integration of these resources will require significant investment in transmission," he said. "The existing transmission system was not built to accommodate this shifting generation fleet."

One supporter, Nina Plaushin, vice president for federal affairs of ITC Holdings Corp., a Michigan-based transmission company, said: "What we have seen in some regions in the past are attempts to assign costs for new transmission to a small set of beneficiaries, because it's politically palatable. If you rob from Peter to pay Paul, you usually get Paul's support."

Now, she said, if a transmission line has broad impact, costs are likely to be assigned more broadly.

Sue D. Sheridan, a consultant who argued against the rule, says that assessing who benefits from a new line is difficult.

A long line might benefit power sellers and buyers — essentially the people where the power is generated and where it is consumed — but not the people in between. But under the new rule, Ms. Sheridan said, the people in the middle might get billed some portion of the cost anyway because they were in the area traversed.

That, she said, would "skew market choices," and with new power plants being built where subsidized lines could be built.

The new rule addresses two of the main impediments to new power line construction: planning and cost allocation.

The third obstacle — getting permits to build — is unaffected. Most land-use decisions remain a state and local function, although as some members of the commission pointed out, sometimes the party that is slowest to grant the needed permits is a federal agency, like the Interior Department.

Most of the power lines now in service were built by monolithic utilities that owned power plants, transmission and distribution. Price allocation was not a big issue because state public service commissions decided what ratepayers would pay.

But in more than half the country, those functions have been separated, with different companies owning the generating stations and handling transmission to customers. Often, especially in periods of high demand, the generators cannot conclude contracts with distant buyers because the transmission lines are too congested; in that case, power prices can rise sharply in the congested area.

Building new power lines can also allow new competitors into a local market, a prospect that can make local producers unhappy if it erodes the price premiums they can command in congested markets.

Anxiety over who will pay for and who will benefit from new power lines extends into Congress.

In February, reacting to the rule while it was still a proposal, a bipartisan group of senators led by Bob Corker, Republican of Tennessee, introduced legislation that they said would prevent non-beneficiaries from being billed for power transmission projects. The bill has not made it out of the Senate Energy Committee.