

Massachusetts State Report for USGO

New Report by ENE Exposes Skyrocketing New England Electric Transmission Costs and Need for Reform

Electric utility transmission system expenditures in New England have skyrocketed in the last ten years. Expenditures in real dollars are up by 5 to 6 times their year 2000 level, and planned expenditures are projected to remain high in coming years. New England transmission expenditures are growing at a dramatically faster rate than those of the rest of the country, and utilities have planned for another \$4.75 billion in investments. These costs are passed on to ratepayers, and are contributing to higher electric utility rates and bills. In 2000 many residential customers paid less than half a penny per kilowatt hour for transmission -- they now pay 1.5 cents, and in the next few years rates are likely to climb towards 2.5 cents.

"Ensuring that electricity is delivered reliably but in a way that maximizes consumer and environmental benefits is critical to the region's economic, energy and environmental future," said ENE Executive Director Dan Sosland. "Unfortunately, the way the region currently plans and pays for reliable electricity delivery is outmoded and skewed in favor of expensive transmission expansion to the detriment of other often cleaner and lower cost choices."

ENE's new report released today -- *Escalating New England Transmission Costs and the Need for Policy Reforms* -- brings to the forefront issues and opportunities related to how the Northeast plans its future electric energy system. "Given the staggering increase in costs consumers in this region are being asked to bear to pay for transmission lines promoted to improve reliability, and the importance of a clean, reliable electric grid to the Northeast's economic and environmental health, transmission planning issues and policy warrant far more public discussion and attention from advocates, system planners, regulators and elected officials," Sosland said.

Developing renewable energy and capturing the tremendous benefits of energy efficiency requires a new way of thinking about the shape and location of the grid. The challenge is to construct a system that facilitates development of new clean power sources and also clean, low cost, energy efficiency -- whether these resources are located at a wind farm or inside the steam pipes of a paper company. These priorities and goals need to be considered and better reflected in the planning process before the region rushes to spend hundreds of millions or even billions of dollars on new or upgraded lines.

A major problem identified by ENE is that the current system favors building large scale, expensive transmission line expansions, even when there are lower cost, cleaner "non-transmission alternatives" or "NTAs." NTAs include options such as energy efficiency, demand response, smart grid technologies and small scale, clean distributed generation. Adopted alone or in combination, they can replace or defer the need to construct new transmission lines. However utilities are currently provided incentives not to pursue lower cost NTAs. The costs of transmission projects determined necessary for grid reliability are socialized and states pay their proportionate share. For example, Maine ratepayers will pay just 8% of the \$1.4 billion Maine Reliability Project. On the other hand, the costs of NTAs are not socialized, so local ratepayers must pay 100% of their cost. Furthermore, utilities earn a higher rate of return on new transmission investments than they do on other capital projects or programs.

"NTAs present opportunities to provide safe, reliable, and cost-effective energy delivery. But the current planning and procurement process and rules prevent NTAs from being considered as solutions," said Derek Murrow, ENE Energy and Climate Policy Director. "We're working with policy makers and other stakeholders to explore options to improve regional planning and rules to achieve a lower cost and more inclusive process."

ENE's paper points out that this is a pivotal moment for electric ratepayers. Transmission investment decisions being made now and in coming years will affect billions of dollars in new investments -- costs that will be passed on to consumers. "The grid of the past, and the outdated process used to determine new investments, must change if we are to have a system that can take the Northeast into a competitive economic future and a clean, low carbon energy era," said Sosland.

ENE proposes some needed reforms, including:

- Full assessment of the potential for demand side resources and investments in energy efficiency, demand response, and distributed generation in addressing reliability needs;
- Better description and quantification of the reliability need and then full consideration of non-transmission alternatives, including a level evaluation process, to address a portion or all of the reliability need;
- Consistent treatment of non-transmission alternatives and transmission investments in terms of payment;

- Consideration of aligning utility incentives so that they see non-transmission alternatives as an opportunity and not just competition for large, capital-intensive transmission projects, including by reducing the generous return utilities are currently receiving on transmission investments, while bringing current transmission incentives down; and,
- Increased authority for state regulators in developing changes to rules and completing electric system planning, a reduced role for ISO New England and industry stakeholders, and hopefully an increased focus by FERC on achieving the goals of achieving a sustainable, reliable energy supply and keeping the region's electricity rates reasonable.

"Policy makers and regulators need to carefully examine what policy changes should be made that would help control costs for consumers and further sustainable energy goals. ENE's report sets out a series of preliminary reform ideas, and we hope to spur greater public attention to this important part of our region's energy and environmental future," said Murrow.

ENE's paper provides an in-depth look at transmission planning and illustrates the complex issue with charts and data, case studies and policy recommendations. It is designed to be a resource for advocates, industry, policy makers and the public. The paper and a short summary of issues are available at: <http://env-ne.org/resources/open/p/id/1106>.

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ENE (Environment Northeast) is a non-profit organization that researches and advocates innovative policies that tackle our environmental challenges while promoting sustainable economies. ENE is at the forefront of state and regional efforts to combat global warming with solutions that promote clean energy, clean air and healthy forests.

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