



Consumers Get the Shaft

Nov 1, 2010 12:00 PM

By Jeff Davis, Missouri Public Service Commission

Smart Customer/ Smart Meter

The great transmission gold rush is on. From the Southwest to the Midwest, anyone remotely connected to the electric business is hanging out their shingle as a transmission builder and rushing to claim a piece of the transmission gold mine the Federal Energy Regulatory Commission (FERC) has created. And who can blame them?

Under the new transmission cost-allocation scheme FERC approved for the Southwestern Power Pool (SPP), there's virtually no risk and the sky's the limit in terms of financial reward. To get started, all you need is an Etch A Sketch for drawing lines across the map, a cost-benefit analysis demonstrating more benefits than costs and the right people to get your project approved by the relevant transmission authority.

Once approved, you can get construction work in progress financing to lower your borrowing costs. Transmission builders can get 100% of their costs capitalized, guaranteed cost recovery for pretty much all their expenses, little or no regulatory oversight on costs and cost-overruns, as well as a hypothetical capital structure to combine with a 13% to 14% return on equity for their projects. All you have to do is complete the project. If that. This begs the question: If you have guaranteed cost recovery and a profit margin, do you really need more incentive? Consumers are going to end up shelling out billions of dollars more than traditional rate-of-return regulation so transmission owners can develop hundreds of millions of dollars in assets they don't even have to operate.

It's true this country hasn't built much transmission in a quarter century or more, but FERC's transmission frenzy isn't just about revitalizing the grid or enhancing an aging infrastructure. FERC's been angling to deregulate electric sales ever since Enron convinced them it was a good idea more than a decade ago. Competitive electricity markets require a robust grid, but the real culprits for driving new transmission costs are states adopting renewable energy standards.

Since many of the best wind locations are in sparsely populated Midwestern states without any transmission infrastructure or the customer base to support new construction, it's easy to see why those states have become champions of the "we're all beneficiaries" model of cost allocation.

Earlier this year SPP became the darling of FERC by proposing its new “highway/byway” cost-allocation methodology — one that forces everyone to pay for everything 300 kV and larger regardless of the benefits they receive. One has to wonder if FERC even bothered to look at the evidence before approving SPP's cost-allocation methodology on June 17, 2010, less than two months after SPP filed its tariff changes.

If there were any questions about FERC's impartiality, they should have been laid to rest when FERC issued a Notice of Proposed Rulemaking (NOPR) covering the cost-allocation issue during the same meeting. Sure, the purpose of a NOPR is to give everyone notice and the opportunity to be heard, but what FERC is really saying to opponents of their cost-allocation scheme can best be summed up by a quote from the movie *Silverado*: “We're going to give you a fair trial, followed by a first-class hanging.”

What about benefits? Reliability, synergies from having one control area, cost savings, cheaper electricity? Sure, there are benefits, but what if your utility never had any problems? Or you were one of those utilities that voluntarily agreed to join a regional transmission authority to get your merger approved? All we have is the assertion that rates are cheaper than they would be otherwise because most of the results aren't measurable. Under the new model, members or transmission owners end up owning the assets and claiming the benefits. The bill goes to the customers, and what a bill it's going to be.

Customers in the SPP footprint are facing at least \$7 billion, if not \$10 billion or more worth of large-scale transmission construction over the next two decades — that's not even covering all seven states. These estimates exclude the costs of any new projects being built to export wind as well as the underlying upgrades needed for more wind development. More importantly, there's no accounting for what will happen to customers' bills when it comes time to calculate all of the incentives with interest, taxes, depreciation and amortization.

FERC's repudiation of the “beneficiaries pay” doctrine along with all the “candy” incentives they are offering have created a modern-day gold rush to the transmission sector. Unfortunately, all the gold in this mine winds up in the hands of the transmission owners who get paid handsomely to build assets they end up owning. Consumers won't even realize they have gotten “the shaft” until a few years from now when their electric bills start going up to pay for these projects. The more these projects get rolled into rates, the madder those consumers are going to get. And who can blame them? If FERC has its way, we'll all be spending the next 30 years depositing our gold into someone else's mine. All we get is the shaft.

Jeff Davis (jeff.davis@psc.mo.gov) is a Missouri Public Service commissioner and chairman of the Regional State Committee for the Southwest Power Pool states.