



National Electricity Delivery Forum: Getting Serious About Modernizing The Infrastructure

A Presentation By:

Dr. John A. Anderson, President and CEO

Electricity Consumers Resource Council (ELCON)

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What Is ELCON?

- The national association for large industrial users of electricity
- Founded in 1976
- Members from a wide range of industries from traditional manufacturing to high-tech



The Challenges We Face Today Relative To Electricity Transmission

- It is difficult to determine the amount of transmission we actually need as long as we, as a nation, have not decided the future regarding at least three things:
 - The structure of future electricity markets – and the amount of distributed generation, cogeneration, energy efficiency and demand response
 - The type or location of future generation
 - The purpose or purposes for which new transmission is to be built

First: The Structure of Future Electricity Markets

- If we decide to have competitive electricity markets in the future we will need a lot of new transmission:
 - To mitigate market power and to allow significant increases in transactions
 - This is especially true if we decide to use LMP
- On the other hand,
 - If we decide not to restructure in areas now still characterized by traditional regulation, or
 - We decide to have considerable renewables, distributed generation, cogeneration, energy efficiency and demand response,
 - The need for new transmission will be substantially changed



Second: The Type Or Location Of New Generation

- We know where today's generation constraints are located and basically what is needed to fix them:
 - However, if we decide to promote renewables and other less conventional generation in the future, we may need substantially more transmission than earlier studies indicated
 - The locations of these resources (e.g., wind) often are located in areas that are not now well connected to the high voltage transmission network

Third: The Purpose or Purposes For Which Transmission Is Built

- Transmission can be built for:
 - Reliability and/or
 - Economic reasons
- Building a transmission network for strictly reliability reasons will require far less transmission than also building for economic reasons

Thus, We Face A Real Dilemma

- Until we resolve at least these three unknowns:
 - We will have continuing problems meeting future transmission needs
- Unfortunately, the resolution of these unknowns:
 - Is neither easy – nor quick
- We must move carefully:
 - As significant costs are involved
 - And consumers will demand that the expenditures are truly necessary
- I suggest four necessary actions



The First Necessary Action

- Find ways to remove or reduce today's very significant obstacles to transmission development:
 - Building transmission is always difficult – especially siting
 - However, the obstacles are made even more significant with both:
 - Joint ownership of generation and transmission and
 - Locational marginal pricing



The First Necessary Action

- Title XII, Subtitle B, of the Energy Policy Act of 2005 may provide some help:
 - Siting may be improved with the new “National Interest Electric Transmission Corridors”
- However, the so-called “incentive” provisions may be less effective
 - Further, as mentioned earlier, reliance on LMP actually makes it more difficult to actually incent new construction or significant upgrades



The Second Necessary Action

- Develop a good working relationship between federal and state regulators
 - Certainly regarding transmission
 - But also on other electricity issues
- As long as federal and state regulators have significantly different views of the future
 - It will be difficult to agree on how to build and/or site new transmission



The Third Necessary Action

- Assure long-term transmission rights for transmission users
 - Long-term transmission rights today are limited in number, transmission path and direction
 - They are tied to the physical capability of the transmission system under conditions that are specified and controlled by the transmission owner or operator
- Major future transmission investments will not be undertaken
 - Unless the transmission consumers, those responsible for the payment of the costs, are assured that they will get their power to their load



The Fourth Necessary Action

- Create an environment where both suppliers and consumers
 - View short-term spot or balancing market transactions in very negative ways
 - Such conditions will motivate both suppliers and consumers to negotiate long-term bi-lateral contracts that will actually reflect the advantages of fuel diversity
 - Such contracts will give assurances to Wall Street that revenues will be available to recover the costs
 - It is very difficult to obtain financing for long-term assets when most transactions are in spot markets



Concluding Thoughts

- Assuring a transmission infrastructure for the future that will provide an adequate and reliable supply of electricity is not easy
 - If it were, it would have been done a long time ago
- Electricity consumers most certainly will pay for transmission infrastructure that assures them:
 - An adequate and reliable supply of electricity
 - At competitive prices



Concluding Thoughts (Cont.)

- However, I do not believe that consumers will accept significant increases in transmission expenditures:
 - Without a consumer buy-in
 - Regulators and other policy makers must discover and understand the needs and desires of consumers
 - The will and wherewithal to modernize the transmission infrastructure will follow from this new focus



How To Contact ELCON

- Electricity Consumers Resource Council (ELCON)
- 1333 H Street, NW, West Tower, 8th Floor
- Phone: 202-682-1390
- Fax: 202-289-6370
- E-mail: elcon@elcon.org
- Web: www.elcon.org

