

Public Utility Fortnightly and Gridweek—Letter to Editor in Response to March 1, 2002 Editorial
March 6, 2002

Dear Bruce,

I would like to take exception to your editorial comments regarding merchant, or as we say competitive transmission. Competitive transmission is already a proven and sound business model. With the right regulatory rules, competitive transmission can make major efficiency improvements to the existing transmission system. This will facilitate the delivery of low cost supplies to reduce consumer electricity costs and improve the reliability of the electric system for the safety of customers. These benefits are worth billions of dollars to consumers, as cited in various *Public Utility Fortnightly* and *Gridweek* articles, and affect the security and overall health of the US economy.

Your editorial, “100-to-1 Odds, Why merchant transmission still looks iffy” misses the main point. Companies can make money with non-rate based competitive expansions of the transmission system if they have clear property rights (reflecting the value brought to the transmission network), in association with definitive contracts between energy buyers and sellers. Leading edge new business concepts tend to be risky and bold ventures. In fact, your arguments sound very familiar to those advocating non-utility generation projects 15 years ago. The various projects that you cited are pioneers in an emerging industry. A missing part of your considerations, that was not likely to be discussed with you by project principals due to competitive sensitivities, is the underlying project contracts and property rights discussions, as they are often not made public at this stage. With clear property rights and complementary contracts, the financial community will support the projects, as has already been demonstrated with the Cross Sound Cable and various projects in Australia. While the projects you mentioned are large in scope, they also may not represent the mainstream of likely competitive transmission projects. We may find more small-scale transmission expansion projects representing the typical competitive transmission undertaking.

However, to make this market work, appropriate regulatory rules are needed to promote transmission investment and allow for competitive transmission. In addition to clear property rights (i.e., financial transmission rights), clear price signals (i.e., locational marginal pricing) are needed to highlight areas of transmission congestion. Armed with clear price information and the ability to use long-term financial transmission rights across the relevant electric market areas, independent transmission companies, demand response companies, new technology companies, generators with locational advantages and others will propose transmission upgrades that make sound financial sense. The lowest cost, least risk investment will likely win out, provided that the planning process is designed and conducted by an entity that does not hold assets that might cause them to bias a planning outcome.

So, Bruce, with the right regulatory rules and the ability to sell transmission property rights on an arms-length basis, merchant transmission is not an “iffy” proposition. Creative companies proposing new market-based solutions will succeed. Financial institutions will support the necessary long-term investments in exactly the same fashion

as they have for generation as long as property rights are clear and appropriate contracts support debt and equity investments. Consumers, power suppliers and transmission owners can all win.

Sincerely,
Jim Schretter
President, Beacon Energy and
Executive Director, Council for Competitive Transmission

Jim Schretter is president of Beacon Energy LLC of McLean VA, (Jschretter@Beaconenergy.com) an innovative energy consulting company and Executive Director for the Council on Competitive Transmission, a coalition of companies that includes TransÉnergie U.S. Ltd., PSE&G, American Superconductor and others focused on creating a healthy competitive US transmission industry.