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(Working Group for Investment in Reliable and Economic electric Systems)

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BLUE RIBBON PANEL ENDORSES CLEAR PRINCIPLES FOR ELECTRIC TRANSMISSION COST ALLOCATION

Washington, DC – September 25, 2007 – In a 72-page report issued today, a panel of five independent industry experts provides definitive guidance for regulators on aligning the costs and benefits of needed new electric transmission facilities. Entitled “A National Perspective On Allocating the Costs of New Transmission Investment,” the report observes that “significant amounts of investment in the transmission system will be needed in the near future and long term if the system is to continue to provide the kind of electricity service that Americans desire and on which the nation’s economy depends.” Addressing one of the most controversial issues surrounding the future of the domestic electric power system – Who pays for transmission expansions and upgrades? – the Blue Ribbon Panel on Transmission Cost Allocation developed “the best means to allocate transmission costs at all levels and in all markets and regions.” The Panel’s report will be presented to the Federal Energy Regulatory Commission, and distributed to state regulatory commissioners and all interested parties.

The Panel’s report contends that existing methods of allocating the costs of high-voltage transmission have led to substantial uncertainty, controversy, and widely divergent impacts on investors and customers. These factors have inhibited investments in infrastructure. Pointing out the need for “clear, consistent, and principled regulatory policy and oversight” in the area of cost allocation, the report identifies ten Principles that should apply to allocations of new transmission investment everywhere in the country. They can be paraphrased as follows:

1. Regional transmission planning processes should include a viable analysis of who benefits from new transmission enhancements.
2. Decisionmakers should employ a single standard that combines the reliability and economic value of transmission.



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3. Benefits should be measured in the aggregate for entire regions or markets.
4. Transmission planning should (a) focus on and incorporate the needs of larger regions without losing sight of sub-regional issues, (b) include all regional demand loads and supply resources, and (c) employ an open process.
5. The costs associated with “baskets” of projects that the planning process determines meet these Principles should be socialized.
6. Subject to rebuttal, rules should support allocating the costs of larger facilities more broadly on a regional basis.
7. With certain interconnections, costs should be allocated to load.
8. New transmission should be supported primarily in federal rates and the transition of such costs out of retail rate base should be orderly.
9. Cost allocation determinations should be periodically reviewed, subject to specific limitations, to ensure appropriate cost responsibility.
10. Transmission investors willing to bear the costs and risks of investment should be granted free entry, provided projects do not adversely impact the system.

The Blue Ribbon Panel also identifies several important contexts for formulating and applying its Principles, specifically credible regulatory and stakeholder processes, clear market definition, a clear chain of cost responsibility, willingness to use rules of thumb where appropriate for determining who pays, and better delineation of regulatory jurisdiction over the recovery of costs in rates.

“WIRES is proud to present this report. It is a major achievement,” stated Larry Bruneel, President of WIRES, the sponsor of the Blue Ribbon Panel. “It tackles one of the most troublesome obstacles to upgrading the grid to meet growing demand and to reach out to remotely-located clean energy resources. I hope that the FERC and its state counterparts, as well as industry, take its messages to heart and move forward in the direction urged by this excellent Panel.” “The infrastructure crisis is here and this report describes that challenge and some key solutions where electric transmission is concerned,” added Jim Hoecker, former FERC Chairman and counsel to WIRES. “The Blue Ribbon Panel has succinctly placed cost allocation back on the table by giving us an unvarnished and independent view of how and why allocation processes and outcomes must be improved if barriers to adequate transmission investment are to be overcome in the years to come. The Panel is realistic about whether everyone, even WIRES



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members, will agree with them on every point. This is a thorough and insightful piece of work nonetheless.”

The Blue Ribbon Panel’s work was funded by WIRES, a new trade group dedicated to promoting transmission investment. WIRES requested only that the group ascertain which approach to allocating transmission costs would best promote enhancement of the grid, recognizing that facilities siting and other issues will also affect the adequacy of this critical part of America’s infrastructure.. The panelists are: Dr. Susan Tierney, Analysis Group (Boston); Professor Ross Baldick, The University of Texas, Austin; Dr. James Bushnell, University of California Energy Institute, Berkeley; Ashley Brown, Executive Director of the Harvard Electricity Policy Group (Cambridge); and Mr. Terry Winter, Executive Vice President, American Superconductor.

WIRES is a non-profit trade association of transmission providers, customers, and equipment and service companies, formed to promote investment in electric transmission and progressive State and Federal policies that advance energy markets, economic efficiency, and consumer and environmental benefits through development of electric power infrastructure. For more information, visit www.wiresgroup.com or contact Jim Hoecker at 202.639.6500.