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April 13, 2010

Honorable Harry Reid
Majority Leader
United States Senate
522 Hart Senate Office Bldg.
Washington, DC 20510

Honorable Jeff Bingaman
Chairman, Energy and Natural
Resources Committee
United States Senate
304 Dirksen Senate Office Bldg
Washington, D.C. 20510

Honorable Mitch McConnell
Minority Leader
U.S. Senate
361-A Russell Senate Office Building
Washington, DC 20510

Honorable Lisa Murkowski
Ranking Member, Energy and Natural
Resources Committee
709 Dirksen Senate Building
Washington, DC 20510

Dear Senators:

Reforming how the electric transmission network is planned, sited, and paid for is essential to the Nation's energy independence, ensuring economic recovery, maintaining the American standard of living, and achieving the goal of a clean energy future. For too long, the achievement of these objectives has been thwarted by a lack of vision, by diverse and parochial interests, by redundant regulatory procedures, and by uncertainties that limit investment in this critical infrastructure and access to capital and ultimately increase costs to consumers. S. 1462 is an important step toward resolving those problems and meeting the challenges posed by the projected growth in electric demand (30% by 2030) and the fact that hundreds of thousands of megawatts of location-constrained renewable energy resources cannot now be interconnected to the existing transmission grid in a reasonable manner and at reasonable cost. S.1462 represents an important bipartisan commitment to achieve important national goals in an effective way.

WIRES, a national non-profit group of transmission providers and customers that are advocates for greater investment in the high-voltage grid *for all purposes* (www.wiresgroup.com), writes today to urge you to correct a serious flaw in S.1462 that will impede investment in the transmission investment necessary to ensure reliability and unlock access to low-cost renewable resources in remote regions of the country by removing language in the bill that would prevent regulators from allocating transmission costs based on *all* benefits and uses afforded by the grid. WIRES believes that passing the bipartisan S.1462 with this necessary change is vital to development of a clean energy transmission grid. WIRES also believes that it is essential that S. 1462 be enacted this year.

Specifically, the cost allocation provision at issue would seriously undermine the ability of the Federal Energy Regulatory Commission (FERC) to exercise its current responsibilities under the Federal Power Act to ascertain whether cost allocations are "just and reasonable" taking into account *all the facts presented, including the impacts of allocations on individual regions or on the implementation of state policies*. The specific requirement in S. 1462 that the FERC may not allocate transmission costs unless they are shown to be "reasonably proportionate to measurable economic and reliability benefits" (revised section 216(i)(1)(B)), would set an impossible standard. The precise benefits of a transmission project cannot be measured many years into the future; those benefits will change as new generation facilities are added or retired, as markets evolve, as power flows change, and as other transmission projects are built. The standard currently set in S. 1462 will result in uncertainty, endless litigation, and inadequate transmission investment.

WIRES fully subscribes to the principle that those who benefit from a regulated asset or service should pay and, conversely, those who never benefit should not. However, several facts and considerations call into question the workability of the "measurable" standard in the bill:

- Regulators and the industry can assess the near-term impacts of a transmission upgrade or expansion on energy flows, congestion, reliability, markets, and levels of service, but such analyses are based on sophisticated modeling of projected system operations. This well-accepted technique involves projections that seldom produce the kind of granularity or empirical measurement that the bill now contemplates.
- Transmission assets, once constructed, provide reliable service for as much as a half century, amid shifting demographic and economic conditions and evolving public policies. Measuring the benefits of a transmission facility over the life of such assets is always complex, in part because the benefits that a particular transmission line provides often change over time. The "measurable benefits" standard in the bill effectively limits construction of new transmission facilities to the few projects with benefits that can be precisely "measured" at the outset.
- Economists, engineers, and policy makers acknowledge that well-planned transmission facilities provide both demonstrable economic and reliability benefits and also a range of other benefits that may or may not be "measurable" when a transmission line is first proposed to be constructed, such as enhanced wholesale electric market liquidity, competition between generating sources that produce competitive wholesale prices, reductions to market power that increase competition among generators, access to new renewable resources that support compliance with state renewable resource portfolio standards, increased fuel diversity in energy production, reduced dependence on foreign oil, likely reduction in carbon emissions through electric generation from renewable energy resources, and the jobs

and tax revenues that new construction produces. While not always “measurable,” these benefits can be demonstrated and, depending on the nature and location of the facilities, they can accrue to ratepayers across entire regions over long periods of time. Regulators need to be able to make reasoned judgments about whether those benefits support the construction of new transmission. There is no yardstick for this task.

- The equitable concept of "beneficiaries pay" is a long-standing principle of cost allocation. Different interests have nevertheless applied this principle in various ways in different contexts. Regulators must have the ability to employ this or other methodologies, such as allocations reflecting the changing uses of the system over time, as circumstances and the public interest dictate. Congress should not inadvertently impose a single approach upon regulators or the industry, contrary to stakeholder processes or the use of valid analytical tools.

In sum, WIRES urges you to support S. 1462, amended to remove the “reasonably proportionate to measurable economic and reliability benefits” language in section 121. With this change, the bill will create a rational regulatory pathway for proposed transmission projects. S. 1462 represents a major step forward in securing the Nation’s energy independence and a clean energy future.

WIRES urges you to support a floor vote on S. 1462 this year, with revised cost allocation language, so that this important piece of legislative action can assist in achieving the Nation’s energy goals.

Sincerely,

A handwritten signature in black ink that reads "Paul McCoy". The signature is written in a cursive, flowing style.

Paul D. McCoy, President
WIRES

Cc: Members, Energy and Natural Resources Committee, U. S. Senate
Honorable Henry Waxman, Chairman, House Committee
On Energy and Commerce
Honorable Edward Markey, Chairman House Select
Committee on Energy Independence and Global Warming