REVIEW & OUTLOOK

The Great Transmission Heist

How would you like to pay higher utility bills to finance expensive electricity from solar and wind power, which you would never use? That's the issue now before the Federal Energy Regulatory Commission (FERC), and it deserves more public and political scrutiny before it becomes a reality.

FERC has a draft rule that could effectively socialize the costs of paying for multi-billion dollar transmission lines to connect remote wind and solar projects to the nation's electric power grid. If FERC rules in favor of Big Wind and Big Solar, the new policy would add billions of dollars onto the utility bills of residents of at least a dozen states—including California, Michigan, Oregon and New York—that will receive little or no benefit from the new power lines.

> The latest scheme to subsidize solar and wind power to the detriment of rate payers.

Transmission lines connect coal, natural gas and nuclear plants to the electric grid so that power can be delivered to homes and businesses. The costs of building this infrastructure, hooking up to the national electric grid and transporting electricity to the end users has traditionally been paid by the industries and passed on to rate payers. This long-standing user-pays policy would be replaced with a policy of everyone pays under FERC's plan.

As FERC chairman Jon Wellinghoff has put it: "This is a country where transmission lines have traditionally been built by the incumbents who serve that area; the question is whether we should continue that policy in the future." He told Congress that we should steer away from pricing that would "calculate the precise monetary benefits expected to accrue from a new transmission facility." But that's exactly what investors try to do in assessing the economic viability of any new project.

The big winners from socializing transmission costs would be wind and solar projects that tend to be in remote areas, like the desert or offshore. In many cases, thousands of miles of new transmission lines would have to be built to get the power to the end user. Google recently announced it will be a major investor in a $5 billion wind farm off the coasts of New Jersey, Delaware and Virginia that will require hundreds of miles of underwater transmission lines. No one is saying who will pay for those transmission costs, but it's a safe guess the investors are betting that FERC will decide to socialize them.

Very big dollars are at stake in this fight. By some estimates the cost of building out new transmission lines to accommodate renewable energy and other new electric power sources could exceed $160 billion. Wind and solar proponents insist that renewable energy standards can only be reached if transmission costs are shared by everybody. This sounds like an admission that these energy sources are inefficient sources of power that can't compete in the marketplace without subsidies. The policy the renewables are pushing would be analogous to taxpayers underwriting the cost of tankers and truckers that transport oil to service stations.

Senators Harry Reid of Nevada and Jeff Bingaman of New Mexico, both of whom have big wind and solar projects in their states, pushed a Senate energy bill this summer that would have socialized these transmission costs. That bill has stalled, so FERC—supported by the White House and Democratic leaders—may move on its own.

Fortunately, the "loser" states are finally catching on to how much this cost-shifting would add to their utility bills. Last year Governors Jan Brewer of Arizona, Jim Gibbons of Nevada, Christine Gregoire of Washington, Ted Kulongoski of Oregon and Arnold Schwarzenegger of California opposed the plan as "inappropriate to assess the cost of transmission build-out to customers that cannot make use of the facilities, or who elect not to because they can access more cost effective options that do not rely on large, new transmission investments to meet environmental goals."

Eleven eastern governors have raised similar objections, arguing that this policy would "undermine the significant renewable energy potential along the East Coast by subsidizing distant terrestrial wind resources which would stifle economic recovery in the east by destabilizing competitive electricity market structures and increasing energy prices in regulated markets." Massachusetts Secretary of Energy and Environmental Affairs Ian Bowles, hardly a Milton Friedman apostle, describes cost-sharing as "a radical Soviet-style approach to transmission planning."

One of the biggest losers would be Michigan. One economic analysis sponsored by Michigan utilities found that, despite some initial gains for certain wind projects in the northern part of the state, under a proposed regional payment scheme, "Michigan will be sending hundreds of millions of dollars annually outside the state to fund transmission projects which not only provide little value to the State, but will actually harm our ability to develop our own renewable energy market." Michigan rate payers would have to subsidize 20% of the cost of some $16 billion of transmission projects outside the state. Talk about outsourcing.

This is all the more maddening given that renewable energy projects already receive tens of billions of dollars of loans, grants, tax credits, earmarks, renewable energy mandates, stimulus money, and on and on. According to a 2007 U.S. Department of Energy study, wind and solar already receive subsidies that are more than 20 times greater per kilowatt of electricity than conventional power sources. But as with ethanol, even these subsidies are never enough.

Senator Bob Corker of Tennessee has sponsored legislative language that would instruct FERC to allocate transmission line costs in a way that is "reasonably proportionate to measurable economic and reliability benefits." In other words, no charging rate payers in New Jersey for the costs of a wind farm in Texas based on vague benefits of reduced planetary carbon emissions.

The courts have also generally ruled that pricing for electric projects must be commensurate with benefits derived by rate payers. If Congress or FERC mandate a cost-spreading scheme for transmission projects, then the highest subsidies will go to the least efficient projects. That wastes money and energy, which doesn't sound too green to us.