



## ENERGY ISSUE BRIEF

### Cooperative Grid Planning: Regional State Committees

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#### Overview

In the coming months, the New England Governors' Conference, Inc. (NEGC) will seek federal approval to create a group known as a Regional State Committee (RSC) to provide policy recommendations to the Federal Energy Regulatory Commission (FERC) on matters concerning the region's wholesale electric power system. The move lends momentum to the concept of regional planning, which has sparked renewed interest among regulators, legislators and industry analysts in recent years. Experts attribute this development to the rise of regional wholesale electric markets throughout the U.S., and the growing dependence of states and electric service providers on electric supply from that marketplace. Electric industry reform, they say, has enhanced the regional nature of the electric system but reduced cooperation among market participants. Proponents of regional entities suggest that through cooperative regional planning, states can best determine how to balance their supply and demand needs.

#### Background: Standard Market Design

FERC recommended the voluntary formation of RSCs in its July 2002 proposed rulemaking on the creation of a standard market design (SMD) for regional wholesale electric markets throughout the U.S. SMD calls for broad changes to the rules and technical systems governing wholesale power generation, power sales and electric transmission to speed market competition and lower electricity prices. FERC's ruling targeted problems including under-investment in transmission, generation sited far from customers, and technical flaws in electricity markets. The formation of Regional Transmission Organizations (RTOs) responsible for regional transmission planning and expansion is a key component of SMD. In its ruling, FERC sought to create a formal role for states to participate in regional electric system planning. Implementation of SMD is currently on hold due to opposition in Congress.

#### RSC Authority and Governance

Currently, policy decisions in New England are made by the non-profit ISO-New England Inc. (ISO-NE), which operates the region's bulk electric generation and transmission system and administers its wholesale electricity marketplace. State public utility commissions regulate the local distribution system and retail activities within the regional marketplace. The ISO-NE, which is independent of market participants, often addresses disputes related to the electric system that transcend state boundaries. If conflict among market participants in a region prevents ISO-NE from obtaining the support needed from state utility regulators to resolve disagreements, FERC intervenes.

The NEGC's RSC proposal asserts that ISO-NE lacks the political representation and accountability needed to effectively balance various public policy objectives, and that states in the region have a better understanding of the implications of electric policy decisions for the region's power producers and consumers.

Under the NEGC proposal, the RSC would comprise representatives appointed by the governors of the six New England states. The committee would provide recommendations to FERC on issues including how improvements to the transmission system are considered and funded (known as system planning and expansion), and how much and what kind of generation New England needs in order to maintain a reliable electric system (known as resource adequacy). The RSC could also address issues related to fuel diversity, security, conservation and the environmental, social and economic impacts of power generation. FERC would defer to the RSC's recommendations, but maintain ultimate control over planning.

## **Interstate Transmission Siting: Authority Would Require Legislative Action**

In its proposal, NEGC also said the RSC would study approaches to facilitate interstate transmission siting.

FERC has indicated that under-investment in transmission is a huge problem in nationwide wholesale electric power markets. In New England, there has been scant investment in new interstate transmission during the last 15 years, while electricity demand has reportedly increased by 25 percent during that time period. States have jurisdiction over transmission line siting, and a key obstacle to installation of interstate transmission lines is individual state siting laws. Given the regional nature of electricity markets, states may increasingly be called upon to approve transmission lines that serve regional, instead of local, needs. This task can be tricky, since construction of new transmission lines has both economic and environmental costs.

FERC has suggested that an RSC could be granted the authority to review and approve new transmission facilities, and resolve disputes among states over siting. This would require that NEGC either work with state legislatures to create an interstate compact that would provide the RSC with interstate siting jurisdiction, or seek to devise federal legislation granting the RSC such authority.

## **Other Regional Proposals**

Elsewhere, other types of regional entities have been proposed or established in recent years:

- In the Northeast, the Regional Transmission Organization PJM Interconnection, Inc. signed a Memorandum of Understanding (MOU) in 1998 with state utilities commissions in the PJM region. PJM coordinates the movement of electricity through all or parts of Delaware, Maryland, New Jersey, Ohio, Pennsylvania, Virginia, West Virginia and the District of Columbia.

As part of the MOU, the Mid-Atlantic Conference of Regulatory Utilities Commissions established a committee to meet periodically with PJM officials to increase communication between the parties.

- Last June, public utilities commissioners from 14 Midwestern states and the Canadian province of Manitoba formed the Organization of MISO states, considered to be the most advanced RSC to date.
- The National Governors Association (NGA) has recommended that governors form Multi-State Entities (MSEs) to help states coordinate transmission planning, certification and siting at the regional level.

In a July 2002 report, the NGA Task Force on Electricity and Infrastructure outlined three main objectives for MSEs: 1) to provide a framework for state input on the RTO planning process; 2) to facilitate a “one-stop” application process that harmonizes regulatory activities of states; and 3) to serve as a forum to resolve disputes and address issues related to transmission planning.

FERC has acknowledged NGA’s recommendations for the creation of MSEs, and asked for comment on how RSCs and MSEs might complement one another.

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### **\*Sources:**

*\*NARUC, “Partnerships in Energy Regulation: Of Regional State Committees, Multi-State Entities and Models for Regional Cooperation” (Winter Meeting 2003).*

*\*NEGC Power Planning Committee, “To Create a Regional State Committee on Electricity Policy” (Sept. 2003).*

*\*NGA Task Force on Electricity Infrastructure, “Interstate Strategies for Transmission Planning and Expansion” (July 2002).*

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