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Gerald Blackmore

Larry Forgy

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INTERSTATE TRANSMISSION OF ELECTRICITY

JUNE 1986

PURPOSE

This report examines the role of "coal-by-wire" transactions among electric utilities in reducing the United States' dependence on imported oil and enhancing the reliability of the electric power supply system. It identifies numerous government impediments to the development of major new transmission facilities.

FINDINGS

The interstate transmission of electricity substantially increases utilization of abundant domestic coal resources for the production of electricity. These power transfers allow coal-generated electricity to displace electricity generated from oil, particularly imported oil.

Strong bulk power transmission networks also provide the greatest possible flexibility in responding to the wide range of operating contingencies and other future uncertainties associated with availability and reliability of the nation's generating capacity.

While our current interconnected transmission network is the strongest in the world, substantial governmental impediments now constrain the utility industry's ability to maintain this network through construction of major new transmission facilities. These impediments include the following.

- Lengthy regulatory processes for issuing licenses or certificates for construction of new transmission lines;
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- Conflicts among local, state, and federal agencies in licensing matters;
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- Lack of institutional continuity in regulatory decision-making; and

- Complete lack of incentives for utilities to undertake construction of major new transmission facilities due to regulatory treatment which assigns all economic benefits of a new facility to the customer, while the utility bears all the risk.

RECOMMENDATIONS

- The Secretary of Energy should declare that maintaining strong interstate electric transmission networks is in the national interest.

- The Department of Energy should intervene or otherwise appear before state and local regulatory bodies that are considering the siting or construction of transmission lines that have interstate or regional implications. When appropriate, the Department should emphasize the need for utilities to fully recover construction costs for interstate transmission lines.

- The Department of Energy should encourage and support the Federal Energy Regulatory Commission in its efforts to resist state encroachment on its jurisdiction over interstate transmission of electricity, particularly in pricing.